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March 9, 2004

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Office of International Corporate Finance  
Room 3094 - Stop 3-6  
Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, D.C. 20549  
U.S.A.



Re: Seiko Epson Corporation  
Information Furnished Pursuant to Rule 12g3-2(b)  
under the Securities Exchange Act of 1934

**SUPPL**

Ladies and Gentlemen:

In connection with our exemption as a foreign private issuer pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934, we hereby furnish the Securities and Exchange Commission with the information listed in Annex A attached hereto required by Rule 12g3-2(b).

If you have any further questions or requests for additional information please do not hesitate to contact Natsuki Sugita of Investor Relations Promotion Department at 011-81-3-3343-5513 (telephone) or 011-81-3-3348-7386 (facsimile).

Very truly yours,

Seiko Epson Corporation

By: *T. Mukawa*

Name: Toshiro Mukawa

Title: General Manager

Investor Relations Promotion Department

**PROCESSED**  
MAR 29 2004  
THOMSON  
FINANCIAL

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3/29*

**ANNEX A**

**A. JAPANESE LANGUAGE DOCUMENTS**

(A brief description of Japanese language document listed 1 below is included in EXHIBIT A, and extract English translation of the document listed 2 below is included in EXHIBIT B, both attached hereto)

1. Interim Securities Report dated December 19, 2003
2. Interim Business Report (from April 1, 2003 to September 30, 2003)

B. ENGLISH LANGUAGE DOCUMENTS

(English documents listed below are included in EXHIBIT C, attached hereto)

Press Releases

- |    | Date                | Title  |
|----|---------------------|--|
| 1. | January 28,<br>2004 | Epson to Acquire IP and Equipment from Sumitomo Electric<br>to Bolster Line of Gigahertz SAW Devices |
| 2. | January 29,<br>2004 | Consolidated Results for the Nine Months Ended December<br>31, 2003                                  |

**EXHIBIT A**

**BRIEF DESCRIPTION OF JAPANESE LANGUAGE DOCUMENTS**

1. Interim Securities Report dated December 19, 2003

This is the interim securities report filed with the Director of the Kanto Local Finance Bureau pursuant to the Securities and Exchange Law of Japan and containing information on the business, financial conditions, operating results, and interim consolidated and non-consolidated financial statements for each of the two half years ending September 30, 2003 and 2002.

**EXHIBIT B**

**EXTRACT TRANSLATION**

Set out below is the extract English translation of the document referred to in ANNEX A, Section A. Item 2.

# INTERIM BUSINESS REPORT

[From April 1, 2003 to September 30, 2003]

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## Consolidated Financial Highlights

[100 million yen]

|                                  | Interim<br>September 2002 | Interim<br>September 2003 | Compared with<br>the Previous<br>Year | Fiscal 2002<br>(March 2003) |
|----------------------------------|---------------------------|---------------------------|---------------------------------------|-----------------------------|
| Net sales                        | 6,019                     | 6,578                     | + 9.3%                                | 13,224                      |
| Operating profit                 | 122                       | 331                       | + 169.7%                              | 493                         |
| Current (interim) net income     | 21                        | 165                       | + 686.8%                              | 125                         |
| Total assets                     | 12,390                    | 12,525                    | + 1.1%                                | 11,976                      |
| Net assets                       | 2,720                     | 3,988                     | + 46.6%                               | 2,813                       |
| Statistics per share (yen):      |                           |                           |                                       |                             |
| Current (interim) net income     | 13.86                     | 94.53                     | + 582.0%                              | 81.08                       |
| Net assets                       | 1,791.30                  | 2,031.27                  | + 13.4%                               | 1,851.13                    |
| Total Outstanding Shares (share) | 151,864,592               | 196,364,592               | + 44,500,000                          | 151,864,592                 |

(Note 1) Fractions less than one million yen in the above table are rounded off.

(Note 2) Current (interim) net income per share is calculated on the basis of the average number of shares outstanding over the period, and net assets per share are calculated on the basis of the number of shares outstanding at the end of the interim period.

(Note 3) Total outstanding shares include treasury stock at the end of the interim period.

# Summary of Consolidated Financial Report

## INTERIM CONSOLIDATED BALANCE SHEET

[100 million yen]

| ITEM   | September<br>30, 2003 | Fiscal 2002<br>(as at March<br>31, 2003) | ITEM   | September<br>30, 2003 | Fiscal 2002<br>(as at March<br>31, 2003) |
|--|-----------------------|--|--|-----------------------|--|
| <b>ASSETS</b>                                      |                       |  | <b>LIABILITIES</b>   |                       |  |
| <b>Current Assets</b>                              | <b>7,415</b>          | <b>6,468</b>                             | <b>Current Liabilities</b>   | <b>4,840</b>          | <b>4,946</b>                             |
| Cash and deposits                                  | 2,721                 | 1,943                                    | Notes payable and accounts payable   | 1,337                 | 1,159                                    |
| Notes receivable and accounts receivable           | 2,142                 | 2,182                                    | Short-term loans   | 1,179                 | 1,437                                    |
| Inventory assets                                   | 1,772                 | 1,674                                    | Current maturities of long-term loans  | 826                   | 702                                      |
| Other current assets                               | 819                   | 710                                      |  |                       |  |
| Allowance for doubtful accounts                    | (41)                  | (42)                                     | Arrearages   | 572                   | 774                                      |
| <b>Fixed Assets</b>                                | <b>5,110</b>          | <b>5,507</b>                             | Other current liabilities  | 924                   | 871                                      |
| Fixed assets, tangible                             | 4,143                 | 4,427                                    | <b>Long-term Liabilities</b>   | <b>3,671</b>          | <b>4,190</b>                             |
| Buildings and structures                           | 3,766                 | 3,782                                    | Long-term loans  | 3,482                 | 3,969                                    |
| Machinery, equipment, and transportation equipment | 4,620                 | 4,729                                    | Other long-term liabilities  | 188                   | 221                                      |
| Furniture and fixtures                             | 1,783                 | 1,779                                    | <b>Total Liabilities</b>   | <b>8,511</b>          | <b>9,137</b>                             |
| Land   | 534                   | 537                                      | <b>MINORITY SHAREHOLDERS' EQUITY</b>   |                       |  |
| Other tangible assets                              | 107                   | 119                                      | Minority Shareholders' Equity  | 25                    | 26                                       |
| Accumulated depreciation                           | (6,669)               | (6,522)                                  | <b>SHAREHOLDERS' EQUITY</b>  |                       |  |
| Fixed assets, intangible                           | 247                   | 269                                      | Shareholders' Equity   | 532                   | 125                                      |
| Investments and other assets                       | 720                   | 810                                      | Additional Capital   | 795                   | 102                                      |
| Investment securities                              | 382                   | 359                                      | Accumulated Earnings   | 2,798                 | 2,648                                    |
| Other investments and assets                       | 345                   | 460                                      | Other Variance of the Estimate of Securities                                     | 18                    | 1  |
| Allowance for doubtful accounts                    | (7)                   | (8)                                      | Cumulative Translation Adjustment  | (155)                 | (65)                                     |
|  |                       |  | Common Stock for Treasury  | (0)                   | (0)                                      |
|  |                       |  | Total Shareholders' Equity   | 3,988                 | 2,813                                    |
| <b>TOTAL ASSETS</b>                                | <b>12,525</b>         | <b>11,976</b>                            | <b>TOTAL LIABILITIES, MINORITY SHAREHOLDERS' EQUITY AND SHAREHOLDERS' EQUITY</b> | <b>12,525</b>         | <b>11,976</b>                            |

(Note) Fractions less than one million yen in the above table are rounded off.



## INTERIM CONSOLIDATED PROFIT AND LOSS STATEMENT

[100 million yen]

| ITEM                                      | From April 1, 2003, to<br>September 30, 2003 | From April 1, 2002, to<br>September 30, 2002 |
|---|--|--|
| Net Sales                                 | 6,578  | 6,019  |
| Operating Profit                          | 331  | 122  |
| Recurring Profit                          | 321  | 82   |
| Interim Net Profit Before Tax Adjustments | 287  | 67   |
| Interim Net Profit                        | 165  | 21   |

(Note) Fractions less than one million yen in the above table are rounded off.

## INTERIM CONSOLIDATED CASH FLOW STATEMENT

[100 million yen]

| ITEM  | From April 1, 2003, to<br>September 30, 2003 | From April 1, 2002, to<br>September 30, 2002 |
|---|--|--|
| Cash Flow from Operating Activities                           | 730  | 569  |
| Cash Flow from Investing Activities                           | (419)  | (663)  |
| Cash Flow from Financing Activities                           | 492  | 468  |
| Exchange Differences of Cash and<br>Cash Equivalents          | (26)   | (9)  |
| Net Increase in Cash and Cash Equivalents                     | 777  | 364  |
| Cash and Cash Equivalents at the<br>Beginning of the Year     | 1,922  | 1,313  |
| Cash and Cash Equivalents at the End of<br>the Interim Period | 2,700  | 1,677  |

(Note) Fractions less than one million yen in the above table are rounded off.

# Summary of Nonconsolidated Financial Report

## INTERIM CONSOLIDATED BALANCE SHEET

[100 million yen]

| ITEM                                     | September<br>30, 2003 | Fiscal 2002<br>(as at March<br>31, 2003) | ITEM   | September<br>30, 2003 | Fiscal 2002<br>(as at March<br>31, 2003) |
|--|-----------------------|--|--|-----------------------|--|
| <b>ASSETS</b>                            |                       |  | <b>LIABILITIES</b>   |                       |  |
| <b>Current Assets</b>                    | <b>5,620</b>          | <b>4,640</b>                             | <b>Current Liabilities</b>   | <b>3,992</b>          | <b>4,058</b>                             |
| Cash and deposits                        | 2,114                 | 1,257                                    | Notes payable and accounts payable   | 1,605                 | 1,401                                    |
| Notes receivable and accounts receivable | 1,827                 | 1,702                                    | Short-term loans   | 815                   | 1,101                                    |
| Inventory assets                         | 704                   | 796                                      | Current maturities of long-term loans  | 785                   | 657                                      |
| Other current assets                     | 973                   | 904                                      |  |                       |  |
| Allowance for doubtful accounts          | (0)                   | (20)                                     | Arrearages   | 461                   | 639                                      |
| <b>Fixed Assets</b>                      | <b>5,414</b>          | <b>5,731</b>                             | Other current liabilities  | 324                   | 259                                      |
| Fixed assets, tangible                   | 3,387                 | 3,574                                    | <b>Long-term Liabilities</b>   | <b>3,506</b>          | <b>4,006</b>                             |
| Buildings                                | 1,409                 | 1,471                                    | Long-term loans  | 3,393                 | 3,858                                    |
| Machinery and equipment                  | 1,061                 | 1,187                                    | Other long-term liabilities  | 113                   | 148                                      |
| Land                                     | 528                   | 528                                      | <b>Total Liabilities</b>   | <b>7,498</b>          | <b>8,065</b>                             |
| Other tangible assets                    | 386                   | 387                                      | <b>SHAREHOLDERS' EQUITY</b>  |                       |  |
| Fixed assets, intangible                 | 169                   | 183                                      | <b>Shareholders' Equity</b>  | <b>532</b>            | <b>125</b>                               |
| Investments and other assets             | 1,858                 | 1,973                                    | <b>Additional Capital</b>  | <b>795</b>            | <b>102</b>                               |
| Investment securities                    | 267                   | 243                                      | <b>Accumulated Earnings</b>  | <b>2,191</b>          | <b>2,076</b>                             |
| Investment in affiliates                 | 1,187                 | 1,231                                    | <b>Other Variance of the Estimate of Securities</b>                              | <b>18</b>             | <b>1</b>                                 |
| Other investments and assets             | 404                   | 499                                      | <b>Common Stock for Treasury</b>   | <b>(0)</b>            | <b>(0)</b>                               |
| Allowance for doubtful accounts          | (0)                   | (0)                                      | <b>Total Shareholders' Equity</b>  | <b>3,536</b>          | <b>2,306</b>                             |
| <b>TOTAL ASSETS</b>                      | <b>11,034</b>         | <b>10,371</b>                            | <b>TOTAL LIABILITIES, MINORITY SHAREHOLDERS' EQUITY AND SHAREHOLDERS' EQUITY</b> | <b>11,034</b>         | <b>10,371</b>                            |

(Note) Fractions less than one million yen in the above table are rounded off.

## INTERIM CONSOLIDATED PROFIT AND LOSS STATEMENT

[100 million yen]

| ITEM                                 | From April 1, 2003, to<br>September 30, 2003 | From April 1, 2002, to<br>September 30, 2002 |
|--------------------------------------|--|--|
| Net Sales                            | 5,228  | 4,738  |
| Operating Profit (loss)              | 182  | (25)   |
| Recurring Profit (loss)              | 203  | (29)   |
| Interim Net Profit Before Tax (loss) | 168  | (48)   |
| Interim Net Profit (loss)            | 130  | (22)   |

(Note) Fractions less than one million yen in the above table are rounded off.

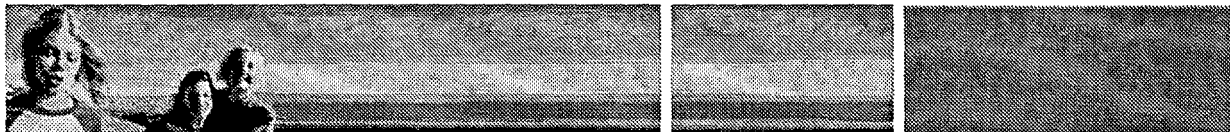
**EXHIBIT C**

**ENGLISH DOCUMENTS**

Set forth below are the English documents referred to in ANNEX A, Section B.

Section B    item 1

1.    January 28,        Epson to Acquire IP and Equipment from Sumitomo Electric  
      2004                to Bolster Line of Gigahertz SAW Devices

The Epson logo is displayed in white capital letters on a black rectangular background.

[Home](#) | [The Epson Company](#) | [Epson & the Community](#) | [Epson Technology](#) | [Investor Relations](#) | **[Newsroom](#)** | [Epson Web Sites](#)

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## newsroom

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## the Epson company

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  - >>> [An Overview of Seiko Epson](#)
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## News Release

### Epson to Acquire IP and Equipment from Sumitomo Electric to Bolster Line of Gigahertz SAW Devices

- TOKYO, Japan, January 28 -

Seiko Epson Corporation ("Epson") and Sumitomo Electric Industries, Ltd., have reached an agreement by which Epson will acquire patents, technical know-how, and production equipment relating to diamond-based surface acoustic wave (SAW) devices from Sumitomo Electric. The acquisition strengthens Epson's line of SAW devices and gives Epson the ability to meet the anticipated demand for increasingly high-frequency communications systems.

Sumitomo Electric is a global leader in gigahertz diamond SAW technology. Applications for this technology are emerging in next-generation communication systems as well as in automobiles and other areas. Epson, which considers diamond SAW technology to be critical for realizing gigahertz SAW devices, has already developed an ultra-compact, high-frequency voltage-controlled SAW oscillator (the EV3104) that operates in the 2-GHz band, by using diamond wafers and devices from Sumitomo Electric Industries. This relationship led to an agreement between the companies about a technology transfer, which is planned to take place in around March 2004.

The technology brought in from Sumitomo Electric gives Epson an organization with end-to-end development ability, from diamond wafer to SAW device. Epson will use this technology to develop ultrahigh frequency devices for promising applications such as reader/writers for radio frequency identification (RFID) tags and dedicated short-range communications (DSRC) in the automotive field. Moreover, the addition of diamond SAW technology to its line of proprietary high-stability SAW device products beefs up Epson's clock solutions business, which includes tuning fork crystals, AT crystals, crystal SAW and diamond SAW devices. Epson will now be able to offer frequencies ranging from the kilohertz through the gigahertz domain, enabling the company to develop the best products for various markets and to present comprehensive proposals in answer to diverse customer needs.

#### About Epson

**The Epson Group increases its corporate value through its innovative and creative culture. Dedicated to providing its customers with digital image innovation, its main product lines comprise information-related equipment such as printers and projectors, electronic devices including displays, semiconductors and quartz devices, and precision products such as watches. Epson products are known throughout the world for their superior quality, functionality, compactness and energy efficiency.**

**The Epson Group is a network of 86,036 employees in 111 companies around the world, and is proud of its ongoing contributions to the global environment and to the communities in which it is located. Led by the Japan-based Seiko Epson Corp., which is listed on the First Section of the Tokyo Stock Exchange, the Group had consolidated sales of 1,32 billion yen in fiscal 2002.**

#### Contacts

**Corporate Communications,**  
**+81-266-58-1705 or +81-3-3340-2637**  
E-mail  
<http://www.epson.co.jp/e/>

#### Attachment

##### Overview of Sumitomo Electric Industries, Ltd.

Address: Sumitomo Bldg., 4-5-33 Kitahama, Chuo-ku, Osaka  
Founded: 1920

Capitalization: ¥96.2 billion (as of the end of March 2003)

Number of employees: 5,500 (nonconsolidated); 85,500 (consolidated) (as of the end of Sept. 2003)

Primary operations: Manufacture and sale of electric wire and cables

Chief executive: Kunio Okayama, President

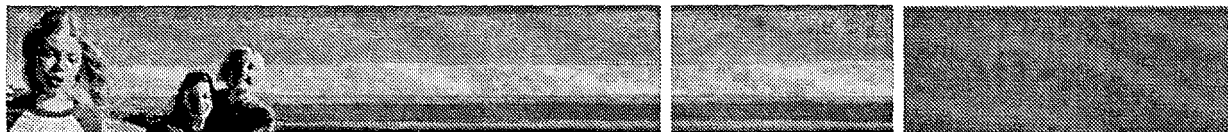
Website URL: <http://www.sei.co.jp/index.en.html>

#### Definitions

- Diamond SAW device: A surface acoustic wave (SAW) device fabricated by depositing thin-film diamond on a silicon wafer. Surface acoustic waves travel at high velocities, and ultra-high frequencies in the GHz band can be generated.
- DSRC: Short for "dedicated short range communications," DSRC is a special narrow-spectrum communications standard in wireless communications systems for forthcoming telematics. It is used in such applications as electronic toll collection systems for toll roads.
- Ultrahigh frequency: Frequencies of 1GHz or more

Section B item 2

2. January 29, Consolidated Results for the Nine Months Ended December  
2004 31, 2003



## News Release

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#### Consolidated Results for the Nine Months Ended December 31, 2003

#### Consolidated Financial Highlights

(Millions of yen, thousands of U.S. dollars, except for per share data)

#### Income statements and cash flows data

|  | Nine months ended December 31 |          | Change  | Year ended March 31 | Nine months ended December 31 |
|--|-------------------------------|----------|---------|---------------------|-------------------------------|
|  | 2003                          | 2002     |         | 2003                | 2003                          |
| <b>Statements of Income Data:</b>                |                               |          |         |                     |                               |
| Net sales  | ¥1,055,924                    | ¥981,700 | 7.6%    | ¥1,322,453          | \$9,856,473                   |
| Operating income                                 | 65,013                        | 45,258   | 43.6%   | 49,360              | 606,860                       |
| Income before income taxes and minority interest | 57,933                        | 13,169   | 339.9%  | 31,629              | 540,773                       |
| Net income                                       | 33,731                        | 3,969    | 749.9%  | 12,510              | 314,860                       |
| <b>Statements of Cash Flows Data:</b>            |                               |          |         |                     |                               |
| Cash flows from operating activities             | 138,590                       | 108,980  | 27.2%   | 159,504             | 1,293,662                     |
| Cash flows from investing activities             | (51,785)                      | (72,455) | (28.5%) | (107,943)           | (483,385)                     |
| Cash flows from financing activities             | 30,681                        | 44,397   | (30.9%) | 9,111               | 286,390                       |
| Cash and cash equivalents at end of the period   | 306,971                       | 211,917  | 44.9%   | 192,288             | 2,865,407                     |
| <b>Per Share Data:</b>                           |                               |          |         |                     |                               |
| Net Income per share -Basic                      | ¥185.04                       | ¥26.13   | 608.2%  | ¥81.08              | \$1.73                        |
| -Diluted   | ¥184.84                       | -        | -       | -                   | \$1.73                        |

#### Notes

- I. The consolidated figures are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.
- II. Figures in 'Change' column are comparisons with the same period of the previous year.
- III. As a result of a change in accounting standards, bonuses to directors and statutory auditors, which are appropriated from retained earnings subsequent to fiscal year end and not reflected in the statement of income of the fiscal year, were reflected in the calculation of net income per share for the period ending December 31, 2003 as if they were charged to income in such fiscal year. Comparative figures have been presented as though the new standard had been applied retroactively. Diluted net income per share are presented only if there are dilutive factors present.
- IV. U.S. dollar amounts are included solely for the convenience of readers. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate. The rate of ¥107.13 = U.S.\$1 at December 31, 2003 has been used for the purpose of presentation.

#### Balance Sheets data

|                                | December 31, 2003 | March 31, 2003 | December 31, 2002 | December 31, 2003 |
|--------------------------------|-------------------|----------------|-------------------|-------------------|
| Total assets                   | ¥1,293,407        | ¥1,196,080     | ¥1,286,247        | \$12,073,247      |
| Shareholders' equity           | ¥411,393          | ¥281,316       | ¥271,057          | \$3,840,128       |
| Debt/Equity ratio (%)          | 31.8%             | 23.5%          | 21.1%             | 31.8%             |
| Shareholders' equity per share | ¥2,095.05         | 1,851.13       | ¥1,784.86         | \$19.56           |

Click here to see a full version of the consolidated results and the supplementary information.  
Click here to see an explanatory presentation.

**SEIKO EPSON CORPORATION**

3-3-5 Owa, Suwa, Nagano

392-8502, Japan

Tel: +81-266-52-3131

<http://www.epson.co.jp/>

January 29, 2004

**CONSOLIDATED RESULTS FOR  
THE NINE MONTHS ENDED DECEMBER 31, 2003****Consolidated Financial Highlights**

(Millions of yen, thousands of U.S. dollars, except for per share data)

**<Income statements and cash flows data>**

|   | Nine months ended<br>December 31, |          |         | Year ended<br>March 31, | Nine months<br>ended<br>December 31, |
|---|-----------------------------------|----------|---------|-------------------------|--------------------------------------|
|   | 2003                              | 2002     | Change  | 2003                    | 2003                                 |
| <b>Statements of Income Data:</b>                   |                                   |          |         |                         |                                      |
| Net sales   | ¥1,055,924                        | ¥981,700 | 7.6%    | ¥1,322,453              | \$9,856,473                          |
| Operating income                                    | 65,013                            | 45,258   | 43.6%   | 49,360                  | 606,860                              |
| Income before income taxes and<br>minority interest | 57,933                            | 13,169   | 339.9%  | 31,629                  | 540,773                              |
| Net income  | 33,731                            | 3,969    | 749.9%  | 12,510                  | 314,860                              |
| <b>Statements of Cash Flows Data:</b>               |                                   |          |         |                         |                                      |
| Cash flows from operating activities                | 138,590                           | 108,980  | 27.2%   | 159,504                 | 1,293,662                            |
| Cash flows from investing activities                | (51,785)                          | (72,455) | (28.5%) | (107,943)               | (483,385)                            |
| Cash flows from financing activities                | 30,681                            | 44,397   | (30.9%) | 9,111                   | 286,390                              |
| Cash and cash equivalents at end of<br>the period   | 306,971                           | 211,917  | 44.9%   | 192,288                 | 2,865,407                            |
| <b>Per Share Data:</b>                              |                                   |          |         |                         |                                      |
| Net Income per share -Basic                         | ¥185.04                           | ¥26.13   | 608.2%  | ¥81.08                  | \$1.73                               |
| -Diluted  | ¥184.84                           | -        | -       | -                       | \$1.73                               |

**Notes**

- I. The consolidated figures are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.
- II. Figures in 'Change' column are comparisons with the same period of the previous year.
- III. As a result of a change in accounting standards, bonuses to directors and statutory auditors, which are appropriated from retained earnings subsequent to fiscal year end and not reflected in the statement of income of the fiscal year, were reflected in the calculation of net income per share for the nine months ending December 31, 2003 as if they were charged to income in such fiscal year. Comparative figures have been presented as though the new standard had been applied retroactively. Diluted net income per share are presented only if there are dilutive factors present.
- IV. U.S. dollar amounts are included solely for the convenience of readers. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate. The rate of ¥107.13 = U.S.\$1 at December 31, 2003 has been used for the purpose of presentation.



## SEIKO EPSON CORPORATION

### <Balance Sheets data>

|                                | December 31,<br>2003 | March 31,<br>2003 | December 31,<br>2002 | December 31,<br>2003 |
|--------------------------------|----------------------|-------------------|----------------------|----------------------|
| Total assets                   | ¥1,293,407           | ¥1,196,080        | ¥1,286,247           | \$12,073,247         |
| Shareholders' equity           | ¥411,393             | ¥281,316          | ¥271,057             | \$3,840,128          |
| Debt / Equity ratio (%)        | 31.8%                | 23.5%             | 21.1%                | 31.8%                |
| Shareholders' equity per share | ¥2,095.05            | ¥1,851.13         | ¥1,784.86            | \$19.56              |

### Operating Performance Highlights

The global economy got off to a shaky start in this nine month period as a result of many destabilizing factors, particularly the SARS (severe acute respiratory syndrome) epidemic in Asia and concerns over international affairs. However, the economic climate continued to steadily improve through the period on the tails of economic recovery in the United States and strong economic expansion in China.

In Japan, while personal spending was flat, the economy gained momentum from increases in capital expenditure and exports, as well as from continued improvements in corporate profits as a result of, for example, further steps taken for cost reduction and an improved business climate.

As for the main markets of the Epson Group ("Epson"), in the information-related equipment business, shift from single function printers to multi-function printers (printers that can print, scan, and copy) in the ink-jet printer market continued across the whole market, which is also extending in Japan. The digital camera market continued to expand resulting in intense competition among printer manufacturers as they focused their energies into improving the quality of printed pictures by inkjet printers. Increasingly lower prices of color laser printers continued to drive the quickening transition to color laser printers. The market continued to expand for LCD (liquid-crystal display) projectors due to the growth in office and education markets, however, intense competition exerted downward pressure on prices. Demand was up in the electronic devices business, which includes color LCDs and color LCD drivers for mobile phones, due to boosted demand seen in replacement purchases, an effect of the continued transition to color mobile phone displays in Europe and the United States, and also because of the popularity of mobile phones equipped with high-resolution inbuilt cameras in Korea and Japan. The precision product business was trapped in a tough market with stagnant domestic personal spending.

In the midst of these market conditions, Epson introduced new products fitted with Epson's unique "Tsuyo-ink," or strong ink, which is an ink that combines the characteristics of high-quality resolution and durability, and thus worked at differentiating its products from our competitors. Epson also launched new multi-function printers in Japan through sales of its PM-A850, an All-In-One multi-function printer that can handle high-resolution pictures. Overseas, sales of products equipped with DURABrite, a pigment ink with high durability, enabled Epson to differentiate further its products from those of other companies. In Japan, Epson launched its fast, light and low priced A3 color laser printer into the laser printer market in response to the demand generated by offices replacing monochrome products with color products. For its electronic devices business, Epson focused its managerial resources into small- and medium-sized color LCDs and color LCD drivers for portable information devices, an area with high potential for market growth and where Epson has a technical advantage, and it aimed to boost its profitability. Furthermore, Epson continued with its reforms for cost reduction, procurement and its business innovation in the management sector.

The average exchange rates of the yen against the U.S. dollar and the Euro over these nine months were ¥115.01 and ¥132.12 respectively. Compared with the same period last year, these rates represent a 6% strengthening of the yen against the dollar but a 11% weakening of yen against the Euro.

As a result of the above circumstances, Epson's net sales for this nine month period increased by 7.6% on the same period last year to ¥1,055,924 million (\$9,856,473 thousand). Operating income rose by 43.6% on the same period last year to ¥65,013 million (\$606,860 thousand), and income before

income taxes and minority interest also increased to 339.9% to ¥57,933 million (\$540,773 thousand). Net income shot up by 749.9% to ¥33,731 million (\$314,860 thousand).

### **Operating Performance Highlights by Business Segments**

#### **Information-related equipment:**

Epson put considerable effort not only into boosting sales of information-related equipment that boast picture durability, including products fitted with Epson's own color pigment ink, but also into enhancing sales through launching the All-In-One multi-function printer that prints high-resolution pictures and through strategic initiatives to promote the replacement of monochrome laser printers with color printers.

As for the imaging and information products business, ink-jet printers (and their related supplies, which applies to all types of printer below) were affected by reduction in sales of single-function printers and an overall drop in prices of printers, but increased sales of multi-function printers and ink cartridges led to slightly higher income. Laser printers performed well, generating increased income by boosting sales of both color and monochrome printers. Increased sales of color laser printers improved sales of related supplies as color printers use a relatively large amount of supplies. Sales of scanners, however, recorded a drop as a result of the continuing shift in sales toward multi-function printers with scanning functions. Overall, sales increased slightly for the imaging and information products business.

The visual instruments business did not fare as well, with monitor modules experiencing a considerable drop in sales that was due to, among other factors, fewer orders for entertainment units, which are the core product among monitor modules, and decreased sales in completed monitors. LCD projectors expanded appreciably in number, yet recorded reduced income as a result of continued price reductions. Consequently, sales decreased in the visual instruments business.

Sales were up in the system devices business, which was due to healthy sales in the North American market of products proposed for novel uses and the successful direct approach to customers carried out in Europe and America boosted sales of terminal modules. The system devices and personal computer businesses on the whole were also able to post increased sales.

Operating income in Epson's information-related business segment decreased as a result of, among other reasons, reduced market prices and increased sales expenses.

This resulted in net sales for the information-related equipment business segment for the this nine month period increasing by 0.6% on the same period last year to ¥687,249 million (\$6,415,093 thousand), and operating income decreasing by 37.2% on the same period last year to ¥42,649 million (\$398,104 thousand).

#### **Electronic devices:**

Epson managed to meet the market's needs as demand shifted toward color displays and multi-functional mobile phones by launching new products. At the same time Epson also implemented initiatives to cut costs involved in procurement and to cut back on its fixed expenses.

In its display business, Epson achieved significant increased sales of MD-TFD LCDs and color STN LCDs improved due to overseas demand for mobile phones with color displays, which are replacing older monochrome display models. The introduction of new mobile phone models in Japan also resulted in increased color display sales. Monochrome STN LCDs experienced a considerable cut in sales, but because the improvement in color displays was more than compensated for that cut, the display business overall finished strongly with considerably increased sales.

The semiconductor business performed well, ending the period with substantial sales growth. This growth was led by increase in sales of color LCD drivers, which have high average unit prices, resulting from overseas demand for color display mobile phones. Sales of image processing semiconductors that are used increasingly in products such as mobile phones equipped with built-in cameras also increased. Epson also improved profit in the quartz devices business through increased sales of crystal oscillators and real-time clock modules for mobile phones and digital still cameras.

Operating income for the electronic devices business segment thus recovered drastically as a result of increased sales in all businesses and a reduction in fixed costs, such as depreciation costs and research and development costs.

This resulted in net sales for the electronic devices business segment for this nine month period increasing by 26.6% on the same period last year to ¥328,873 million (\$3,069,850 thousand), and operating income was ¥28,155 million (\$262,812 thousand) (operating loss was ¥22,876 million on the same period last year).

#### Precision products:

Despite the harsh market conditions, Epson's precision products business succeeded in developing products to match customer needs and implementing cost reduction plans.

In the watch business, high-priced products saw steady sales in the domestic market although the polarization of consumption between price ranges led to reduced unit sales of medium-priced products, which are Epson's flagship product among watches. In the optical products business, optical devices for projectors were on the rise but lackluster consumer spending led to sluggish sales of corrective lenses in the domestic market. The factory automation business enjoyed higher sales of IC handlers due to the recovery of semiconductor market.

Overall, sales in the precision products business segment decreased, however, operating income for the precision products business segment increased due to improved sales of high-priced products and implementation of cost reductions.

This resulted in net sales for the precision products business segment for this nine month period decreasing by 1.2% on the same period last year to ¥61,272 million (\$571,941 thousand), and operating income increasing by 146.7% on the same period last year to ¥3,020 million (\$28,190 thousand).

#### Operating Performance Highlights by Geographic Segments

##### Japan:

Sales increased for MD-TFD LCDs, color STN LCDs. As a result, net sales increased 5.9% on the same period last year to ¥889,835 million (\$8,306,123 thousand), and operating income increased by 82.4% on the same period last year to ¥33,356 million (\$311,359 thousand).

##### The Americas:

Scanners, inkjet printers, multi-function printers and dot matrix printers all experienced reduced sales. As a result, net sales decreased 2.1% on the same period last year to ¥198,844 million (\$1,856,100 thousand), and operating income increased by 32.1% on the same period last year to ¥7,019 million (\$65,518 thousand).

##### Europe:

Sales rose for inkjet printers, multi-function printers, color STN LCDs and laser printers. As a result, net sales increased 15.5% on the same period last year to ¥215,551 million (\$2,012,051 thousand), and operating income increased by 40.0% on the same period last year to ¥7,298 million (\$68,124 thousand).

##### Asia / Oceania:

Sales of inkjet printers and multi-function printers decreased, however, sales were up for MD-TFD LCDs and color STN LCD's. As a result, net sales increased 6.9% on the same period last year to ¥525,354 million (\$4,903,892 thousand), and operating income decreased by 6.7% on the same period last year to ¥18,762 million (\$175,132 thousand).

**Cash Flow Performance**

Net income for this nine month period was ¥33,731 million (\$314,860 thousand). Depreciation and amortization, principally from the electronic devices business segment, was ¥81,888 million (\$764,380 thousand). As for changes to assets and liabilities, accounts receivable increased by ¥36,397 million (\$339,746 thousand) and accounts payable also increased by ¥41,591 million (\$388,229 thousand). As a result, cash inflows from operating activities came to ¥138,590 million (\$1,293,662 thousand).

Cash outflows from investing activities were ¥51,785 million (\$483,385 thousand) due to capital expenditures, principally in the imaging and information products business, and amounts that came due during this period for tangible and intangible fixed assets acquired at the end of last period which amounted to ¥58,407 million (\$545,198 thousand).

Cash flows from financial activities were positive at ¥30,681 million (\$286,390 thousand), which includes proceeds of ¥109,915 million (\$1,025,996 thousand) from the issuance of new stocks, which was due to Epson's listing on the stock exchange including the exercise of over allotment and net payments of ¥76,282 million (\$712,051 thousand) from short- and long-term loans in accordance with new loans and loan repayments.

As a result, cash and cash equivalents as of December 31, 2003 became ¥306,971 million (\$2,865,407 thousand).

**Highlights of the Third Quarter**

Net sales for the third quarter rose by 4.8% on the same period last year to ¥398,070 million (\$3,715,766 thousand), shaking off the decline in income from sales in the information-related equipment business due to price reduction, and supported by the increase in sales in the electronic device business, which was generated by successful sales in LCDs and related products for mobile phones. Operating income, however, was still greatly affected by the declining profit in the information-related equipment business decreasing by 3.3% on the same period last year to ¥31,898 million (\$297,750 thousand). Income before income taxes and minority interest increased by 357.2% to ¥29,144 million (\$272,044 thousand). Net income also increased by 821.0% to ¥17,168 million (\$160,253 thousand).

**Forecast for fiscal year ending March 31, 2004**

Epson forecasts that the electronic device business segment will maintain healthy performance, where with the increased demand is expected in the fourth quarter through the continuing movement toward color displays in mobile phones. But since sales in the information-related equipment business segment are expected to fall, Epson anticipates overall financial results for the next business year similar to those previously forecast on October 30, 2003. The exchange rate for the fourth quarter is assumed as U.S.\$1 = ¥108 and Euro1 = ¥135. Foreign exchange effect to income are limited due to balanced accounts receivables and payables for U.S.\$ and, foreign exchange contract are concluded for Euro to hedge foreign exchange fluctuations.

**Outlook for Consolidated Results****Full year**

|   | FY 2002          | Current Outlook  | Change        |
|---|------------------|------------------|---------------|
| Net Sales   | ¥1,322.5 billion | ¥1,414.0 billion | ¥91.5 billion |
| Income before income tax<br>and minority interest | ¥31.6 billion    | ¥60.0 billion    | ¥28.4 billion |
| Net income  | ¥12.5 billion    | ¥35.0 billion    | ¥22.5 billion |

**Cautionary Statement**

This report includes forward-looking statements which are based on management's view from the information available at the time of the announcement. These statements involve risks and uncertainties. Actual results may be materially different from those discussed in the forward-looking statements. The factors that may affect Epson include, but are not limited to, general economic conditions, the ability of Epson to continue to timely introduce new products and services in markets, consumption trend, competition, technology trend, exchange rate fluctuations.

# SEIKO EPSON CORPORATION

## Quarterly Consolidated Statements of Income (Unaudited)

|  | Millions of yen    |                       |                      |
|--|--------------------|-----------------------|----------------------|
|  | Three months ended |                       |                      |
|  | June 30,<br>2003   | September 30,<br>2003 | December 31,<br>2003 |
| Net sales  | ¥315,193           | ¥342,661              | ¥398,070             |
| Cost of sales                                    | 224,851            | 247,461               | 280,836              |
| Gross profit                                     | 90,342             | 95,200                | 117,234              |
| Selling, general and administrative expenses     | 76,125             | 76,302                | 85,336               |
| Operating income                                 | 14,217             | 18,898                | 31,898               |
| Other income                                     | 2,187              | 2,573                 | 2,565                |
| Other expenses                                   | 4,120              | 4,966                 | 5,319                |
| Income before income taxes and minority interest | 12,284             | 16,505                | 29,144               |
| Income taxes                                     | 6,224              | 5,779                 | 11,792               |
| Income before minority interest                  | 6,060              | 10,726                | 17,352               |
| Minority interest in subsidiaries                | 93                 | 130                   | 184                  |
| Net income                                       | ¥5,967             | ¥10,596               | ¥17,168              |

# SEIKO EPSON CORPORATION

## Consolidated Balance Sheets (Unaudited)

|                                      | Millions of yen      |                   |                 | Thousands of U.S. dollars |                      |
|--------------------------------------|----------------------|-------------------|-----------------|---------------------------|----------------------|
|                                      | December 31,<br>2003 | March 31,<br>2003 | Change          | December 31,<br>2002      | December 31,<br>2003 |
| <b>ASSETS</b>                        |                      |                   |                 |                           |                      |
| Current assets:                      |                      |                   |                 |                           |                      |
| Cash and cash equivalents            | ¥306,971             | ¥192,288          | ¥114,683        | ¥211,917                  | \$2,865,407          |
| Time deposits                        | 412                  | 498               | (86)            | 924                       | 3,846                |
| Notes and accounts receivable, trade | 252,995              | 218,280           | 34,715          | 247,860                   | 2,361,570            |
| Inventories                          | 168,218              | 167,478           | 740             | 193,909                   | 1,570,223            |
| Other current assets                 | 79,664               | 71,010            | 8,654           | 85,717                    | 743,619              |
| Allowance for doubtful accounts      | (4,088)              | (4,244)           | 156             | (4,626)                   | (38,159)             |
| Total current assets                 | <u>804,172</u>       | <u>645,310</u>    | <u>158,862</u>  | <u>735,701</u>            | <u>7,506,506</u>     |
| Property, plant and equipment:       |                      |                   |                 |                           |                      |
| Buildings and structures             | 375,309              | 378,268           | (2,959)         | 377,567                   | 3,503,305            |
| Machinery and equipment              | 459,909              | 472,977           | (13,068)        | 465,611                   | 4,292,999            |
| Furniture and fixtures               | 174,984              | 177,972           | (2,988)         | 175,702                   | 1,633,380            |
| Land                                 | 52,720               | 53,794            | (1,074)         | 54,869                    | 492,112              |
| Other                                | 10,730               | 11,962            | (1,232)         | 10,748                    | 100,159              |
|                                      | <u>1,073,652</u>     | <u>1,094,973</u>  | <u>(21,321)</u> | <u>1,084,497</u>          | <u>10,021,955</u>    |
| Accumulated depreciation             | <u>(677,490)</u>     | <u>(652,204)</u>  | <u>(25,286)</u> | <u>(635,891)</u>          | <u>(6,323,999)</u>   |
|                                      | <u>396,162</u>       | <u>442,769</u>    | <u>(46,607)</u> | <u>448,606</u>            | <u>3,697,956</u>     |
| Investments and other assets:        |                      |                   |                 |                           |                      |
| Investment securities                | 38,348               | 35,906            | 2,442           | 26,863                    | 357,958              |
| Intangible assets                    | 23,751               | 26,955            | (3,204)         | 27,359                    | 221,702              |
| Other assets                         | 31,734               | 46,020            | (14,286)        | 48,899                    | 296,219              |
| Allowance for doubtful accounts      | (760)                | (880)             | 120             | (1,181)                   | (7,094)              |
|                                      | <u>93,073</u>        | <u>108,001</u>    | <u>(14,928)</u> | <u>101,940</u>            | <u>868,785</u>       |
| Total assets                         | <u>¥1,293,407</u>    | <u>¥1,196,080</u> | <u>¥97,327</u>  | <u>¥1,286,247</u>         | <u>\$12,073,247</u>  |

The accompanying notes are an integral part of these financial statements.

# SEIKO EPSON CORPORATION

|  | Millions of yen      |                   |           | Thousands of U.S. dollars |                      |
|--|----------------------|-------------------|-----------|---------------------------|----------------------|
|  | December 31,<br>2003 | March 31,<br>2003 | Change    | December 31,<br>2002      | December 31,<br>2003 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                      |                      |                   |           |                           |                      |
| Current liabilities:   |                      |                   |           |                           |                      |
| Short-term bank loans  | ¥73,842              | ¥142,198          | ¥(68,356) | ¥180,255                  | \$689,275            |
| Current portion of long-term debt                                | 85,091               | 70,258            | 14,833    | 58,059                    | 794,278              |
| Notes and accounts payable, trade                                | 160,147              | 115,966           | 44,181    | 155,121                   | 1,494,885            |
| Accounts payable, other  | 69,515               | 77,492            | (7,977)   | 80,811                    | 648,884              |
| Income taxes payable   | 12,518               | 8,316             | 4,202     | 9,253                     | 116,849              |
| Accrued bonuses  | 7,949                | 13,590            | (5,641)   | 6,620                     | 74,200               |
| Accrued warranty costs   | 12,800               | 14,275            | (1,475)   | 19,167                    | 119,481              |
| Other current liabilities  | 68,989               | 50,992            | 17,997    | 57,534                    | 643,974              |
| Total current liabilities  | 490,851              | 493,087           | (2,236)   | 566,820                   | 4,581,826            |
| Long-term liabilities:   |                      |                   |           |                           |                      |
| Long-term debt   | 369,837              | 396,934           | (27,097)  | 406,438                   | 3,452,226            |
| Accrued pension and severance costs                              | 8,437                | 9,242             | (805)     | 25,985                    | 78,755               |
| Accrued directors' and statutory auditors' retirement allowances | 1,668                | 2,403             | (735)     | 2,339                     | 15,570               |
| Other long-term liabilities                                      | 8,683                | 10,490            | (1,807)   | 11,113                    | 81,051               |
| Total long-term liabilities                                      | 388,625              | 419,069           | (30,444)  | 445,875                   | 3,627,602            |
| Minority interest in subsidiaries                                | 2,538                | 2,608             | (70)      | 2,495                     | 23,691               |
| Shareholders' equity:  |                      |                   |           |                           |                      |
| Common stock, no par value                                       | 53,204               | 12,531            | 40,673    | 12,531                    | 496,630              |
| Additional paid-in capital                                       | 79,501               | 10,259            | 69,242    | 10,259                    | 742,098              |
| Retained earnings  | 295,275              | 264,874           | 30,401    | 256,334                   | 2,756,230            |
| Net unrealized gains on other securities                         | 1,941                | 167               | 1,774     | (753)                     | 18,118               |
| Translation adjustments  | (18,527)             | (6,515)           | (12,012)  | (7,314)                   | (172,939)            |
| Treasury stock   | (1)                  | (0)               | (1)       | (0)                       | (9)                  |
| Total shareholders' equity                                       | 411,393              | 281,316           | 130,077   | 271,057                   | 3,840,128            |
| Commitments and contingent liabilities                           |                      |                   |           |                           |                      |
| Total liabilities and shareholders' equity                       | ¥1,293,407           | ¥1,196,080        | ¥97,327   | ¥1,286,247                | \$12,073,247         |

The accompanying notes are an integral part of these financial statements.



# SEIKO EPSON CORPORATION

## Consolidated Statements of Income (Unaudited)

### Nine months ended December 31:

|   | Millions of yen                   |          |          |          | Thousands of U.S. dollars         |             |
|---|-----------------------------------|----------|----------|----------|-----------------------------------|-------------|
|   | Nine months ended<br>December 31, |          | Change   |          | Nine months ended<br>December 31, |             |
|   | 2003                              | 2002     |          |          | 2003                              | 2002        |
| Net sales   | ¥1,055,924                        | ¥981,700 | ¥74,224  | 7.6%     | ¥1,322,453                        | \$9,856,473 |
| Cost of sales   | 753,148                           | 707,334  | 45,814   | 6.5%     | 959,865                           | 7,030,225   |
| Gross profit  | 302,776                           | 274,366  | 28,410   | 10.4%    | 362,588                           | 2,826,248   |
| Selling, general and administrative expenses:                                       |                                   |          |          |          |                                   |             |
| Salaries and wages  | 57,829                            | 54,777   | 3,052    | 5.6%     | 72,597                            | 539,802     |
| Advertising   | 22,065                            | 19,977   | 2,088    | 10.5%    | 30,138                            | 205,965     |
| Sales promotion   | 23,367                            | 20,723   | 2,644    | 12.8%    | 30,364                            | 218,118     |
| Research and development costs  | 30,509                            | 31,554   | (1,045)  | (3.3%)   | 42,787                            | 284,785     |
| Shipping costs  | 15,207                            | 15,537   | (330)    | (2.1%)   | 19,756                            | 141,949     |
| Provision for doubtful accounts   | 461                               | 810      | (349)    | (43.1%)  | 665                               | 4,303       |
| Other   | 88,325                            | 85,730   | 2,595    | 3.0%     | 116,921                           | 824,466     |
|   | 237,763                           | 229,108  | 8,655    | 3.8%     | 313,228                           | 2,219,388   |
| Operating income  | 65,013                            | 45,258   | 19,755   | 43.6%    | 49,360                            | 606,860     |
| Other income:   |                                   |          |          |          |                                   |             |
| Interest and dividend income  | 1,208                             | 896      | 312      | 34.8%    | 1,289                             | 11,276      |
| Net gain on foreign exchange  | 263                               | -        | 263      | -        | -                                 | 2,455       |
| Reversal of specific warranty costs   | -                                 | -        | -        | -        | 2,982                             | -           |
| Gain on transfer to government of the substitutional portion of pension liabilities | -                                 | -        | -        | -        | 17,577                            | -           |
| Other   | 4,703                             | 5,636    | (933)    | (16.6%)  | 7,950                             | 43,900      |
|   | 6,174                             | 6,532    | (358)    | (5.5%)   | 29,798                            | 57,631      |
| Other expenses:   |                                   |          |          |          |                                   |             |
| Interest expenses   | 4,973                             | 4,558    | 415      | 9.1%     | 6,257                             | 46,420      |
| Net loss on foreign exchange  | -                                 | 4,125    | (4,125)  | -        | 5,552                             | -           |
| Loss on disposal of property, plant and equipment                                   | 2,638                             | 1,939    | 699      | 36.0%    | 3,233                             | 24,624      |
| Reorganization costs  | 2,044                             | 23,628   | (21,584) | (91.3%)  | 23,955                            | 19,080      |
| Other   | 3,599                             | 4,371    | (772)    | (17.7%)  | 8,532                             | 33,594      |
|   | 13,254                            | 38,621   | (25,367) | (65.7%)  | 47,529                            | 123,718     |
| Income before income taxes and minority interest                                    | 57,933                            | 13,169   | 44,764   | 339.9%   | 31,629                            | 540,773     |
| Income taxes:   |                                   |          |          |          |                                   |             |
| Current   | 15,445                            | 8,710    | 6,735    | 77.3%    | 12,368                            | 144,171     |
| Deferred  | 8,350                             | 148      | 8,202    | 5,541.9% | 6,289                             | 77,943      |
|   | 23,795                            | 8,858    | 14,937   | 168.6%   | 18,657                            | 222,114     |
| Income before minority interest   | 34,138                            | 4,311    | 29,827   | 691.9%   | 12,972                            | 318,659     |
| Minority interest in subsidiaries   | 407                               | 342      | 65       | 19.0%    | 462                               | 3,799       |
| Net income  | ¥33,731                           | ¥3,969   | ¥29,762  | 749.9%   | ¥12,510                           | \$314,860   |
|   |                                   |          |          |          |                                   |             |
|   | Yen                               |          |          |          | U.S. dollars                      |             |
| Per share:  |                                   |          |          |          |                                   |             |
| Net income (loss)   | ¥185.04                           | ¥26.13   | ¥158.91  | 608.2%   | ¥81.08                            | \$1.73      |
| Cash dividends  | ¥18.00                            | ¥18.00   | -        | -        | ¥18.00                            | \$0.17      |

The accompanying notes are an integral part of these financial statements.

**Three months ended December 31:**

|  | Millions of yen                    |          |          |         | Thousands of<br>U.S. dollars                  |
|--|------------------------------------|----------|----------|---------|---|
|  | Three months ended<br>December 31, |          | Change   |         | Three months<br>ended<br>December 31,<br>2003 |
|  | 2003                               | 2002     |          |         |   |
| Net sales  | ¥398,070                           | ¥379,703 | ¥18,367  | 4.8%    | \$3,715,766                                   |
| Cost of sales  | 280,836                            | 261,553  | 19,283   | 7.4%    | 2,621,451                                     |
| Gross profit   | 117,234                            | 118,150  | (916)    | (0.8%)  | 1,094,315                                     |
| Selling, general and administrative<br>expenses:     |                                    |          |          |         |   |
| Salaries and wages                                   | 19,469                             | 18,234   | 1,235    | 6.8%    | 181,733                                       |
| Advertising  | 9,832                              | 9,865    | (33)     | (0.3%)  | 91,776  |
| Sales promotion                                      | 9,940                              | 9,181    | 759      | 8.3%    | 92,784  |
| Research and development costs                       | 9,816                              | 10,700   | (884)    | (8.3%)  | 91,627  |
| Shipping costs                                       | 6,583                              | 7,789    | (1,206)  | (15.5%) | 61,449  |
| Provision for doubtful accounts                      | 43                                 | 373      | (330)    | (88.5%) | 401   |
| Other  | 29,653                             | 29,028   | 625      | 2.2%    | 276,795                                       |
|  | 85,336                             | 85,170   | 166      | 0.2%    | 796,565                                       |
| Operating income                                     | 31,898                             | 32,980   | (1,082)  | (3.3%)  | 297,750                                       |
| Other income:  |                                    |          |          |         |   |
| Interest and dividend income                         | 357                                | 342      | 15       | 4.4%    | 3,333   |
| Net gain on foreign exchange                         | 434                                | -        | 434      | -       | 4,051   |
| Other  | 1,774                              | 1,662    | 112      | 6.7%    | 16,560  |
|  | 2,565                              | 2,004    | 561      | 28.0%   | 23,944  |
| Other expenses:                                      |                                    |          |          |         |   |
| Interest expenses                                    | 1,687                              | 1,595    | 92       | 5.8%    | 15,747  |
| Net loss on foreign exchange                         | -                                  | 957      | (957)    | -       | -   |
| Loss on disposal of property, plant<br>and equipment | 909                                | 543      | 366      | 67.4%   | 8,485   |
| Reorganization costs                                 | 481                                | 23,530   | (23,049) | (98.0%) | 4,490   |
| Other  | 2,242                              | 1,985    | 257      | 12.9%   | 20,928  |
|  | 5,319                              | 28,610   | (23,291) | (81.4%) | 49,650  |
| Income before income taxes<br>and minority interest  | 29,144                             | 6,374    | 22,770   | 357.2%  | 272,044                                       |
| Income taxes   | 11,792                             | 4,385    | 7,407    | 168.9%  | 110,073                                       |
| Income before minority<br>interest                   | 17,352                             | 1,989    | 15,363   | 772.4%  | 161,971                                       |
| Minority interest in subsidiaries                    | 184                                | 125      | 59       | 47.2%   | 1,718   |
| Net income   | ¥17,168                            | ¥1,864   | ¥15,304  | 821.0%  | \$160,253                                     |

The accompanying notes are an integral part of these financial statements.

# SEIKO EPSON CORPORATION

## Consolidated Statements of Change in Shareholders' Equity (Unaudited) Nine months ended December 31:

| Millions of yen  |                            |                 |                                  |  |                            |                   |                      |          |
|--|----------------------------|-----------------|----------------------------------|--|----------------------------|-------------------|----------------------|----------|
|  | Number of<br>shares issued | Common<br>stock | Additional<br>paid-in<br>capital | Net unrealized<br>gains on other<br>securities | Translation<br>adjustments | Treasury<br>stock | Retained<br>earnings | Total    |
| Balance at March 31, 2002                              | 151,864,592                | ¥12,531         | ¥10,259                          | ¥1,286   | ¥1,342                     | ¥(0)              | ¥254,931             | ¥280,349 |
| Net income for the nine months ended December 31, 2002 | -                          | -               | -                                | -  | -                          | -                 | 3,969                | 3,969    |
| Cash dividends   | -                          | -               | -                                | -  | -                          | -                 | (2,734)              | (2,734)  |
| Bonuses to directors and statutory auditors            | -                          | -               | -                                | -  | -                          | -                 | (98)                 | (98)     |
| Changes due to subsidiaries newly consolidated         | -                          | -               | -                                | -  | -                          | -                 | 266                  | 266      |
| Net unrealized losses on other securities              | -                          | -               | -                                | (2,039)  | -                          | -                 | -                    | (2,039)  |
| Translation adjustments                                | -                          | -               | -                                | -  | (8,656)                    | -                 | -                    | (8,656)  |
| Balance at December 31, 2002                           | 151,864,592                | ¥12,531         | ¥10,259                          | ¥(753)   | ¥(7,314)                   | ¥(0)              | ¥256,334             | ¥271,057 |
| Balance at March 31, 2003                              | 151,864,592                | ¥12,531         | ¥10,259                          | ¥167   | ¥(6,515)                   | ¥(0)              | ¥264,874             | ¥281,316 |
| Net income for the nine months ended December 31, 2003 | -                          | -               | -                                | -  | -                          | -                 | 33,731               | 33,731   |
| Issuance of common stock under public offering         | 44,500,000                 | 40,673          | 69,242                           | -  | -                          | -                 | -                    | 109,915  |
| Cash dividends   | -                          | -               | -                                | -  | -                          | -                 | (3,134)              | (3,134)  |
| Bonuses to directors and statutory auditors            | -                          | -               | -                                | -  | -                          | -                 | (196)                | (196)    |
| Net unrealized gain on other securities                | -                          | -               | -                                | 1,774  | -                          | -                 | -                    | 1,774    |
| Translation adjustments                                | -                          | -               | -                                | -  | (12,012)                   | -                 | -                    | (12,012) |
| Changes in treasury stock                              | -                          | -               | -                                | -  | -                          | (1)               | -                    | (1)      |
| Balance at December 31, 2003                           | 196,364,592                | ¥53,204         | ¥79,501                          | ¥1,941   | ¥(18,527)                  | ¥(1)              | ¥295,275             | ¥411,393 |

| Millions of yen  |                            |                 |                                  |  |                            |                   |                      |          |
|--|----------------------------|-----------------|----------------------------------|--|----------------------------|-------------------|----------------------|----------|
|  | Number of<br>shares issued | Common<br>stock | Additional<br>paid-in<br>capital | Net unrealized<br>gains on other<br>securities | Translation<br>adjustments | Treasury<br>stock | Retained<br>earnings | Total    |
| Balance at March 31, 2002  | 151,864,592                | ¥12,531         | ¥10,259                          | ¥1,286   | ¥1,342                     | ¥(0)              | ¥254,931             | ¥280,349 |
| Net income   | -                          | -               | -                                | -  | -                          | -                 | 12,510               | 12,510   |
| Cash dividends   | -                          | -               | -                                | -  | -                          | -                 | (2,734)              | (2,734)  |
| Bonuses to directors and statutory auditors                            | -                          | -               | -                                | -  | -                          | -                 | (98)                 | (98)     |
| Increase due to affiliates newly accounted for under the equity method | -                          | -               | -                                | -  | -                          | -                 | 265                  | 265      |
| Net unrealized losses on other securities                              | -                          | -               | -                                | (1,119)  | -                          | -                 | -                    | (1,119)  |
| Translation adjustments  | -                          | -               | -                                | -  | (7,857)                    | -                 | -                    | (7,857)  |
| Balance at March 31, 2003  | 151,864,592                | ¥12,531         | ¥10,259                          | ¥167   | ¥(6,515)                   | ¥(0)              | ¥264,874             | ¥281,316 |

|  | Thousands of U.S. dollars |                                  |  |                            |                   |                      |             |
|--|---------------------------|----------------------------------|--|----------------------------|-------------------|----------------------|-------------|
|  | Common<br>stock           | Additional<br>paid-in<br>capital | Net unrealized<br>gains on other<br>securities | Translation<br>adjustments | Treasury<br>stock | Retained<br>earnings | Total       |
| Balance at March 31, 2003                              | \$116,970                 | \$95,762                         | \$1,559  | \$(60,814)                 | \$(0)             | \$2,472,454          | \$2,625,931 |
| Net income for the nine months ended December 31, 2003 | -                         | -                                | -  | -                          | -                 | 314,860              | 314,860     |
| Issuance of common stock under public offering         | 379,660                   | 646,336                          | -  | -                          | -                 | -                    | 1,025,996   |
| Cash dividends   | -                         | -                                | -  | -                          | -                 | (29,254)             | (29,254)    |
| Bonuses to directors and statutory auditors            | -                         | -                                | -  | -                          | -                 | (1,830)              | (1,830)     |
| Net unrealized gain on other securities                | -                         | -                                | 16,559   | -                          | -                 | -                    | 16,559      |
| Translation adjustments                                | -                         | -                                | -  | (112,125)                  | -                 | -                    | (112,125)   |
| Changes in treasury stock                              | -                         | -                                | -  | -                          | (9)               | -                    | (9)         |
| Balance at December 31, 2003                           | \$496,630                 | \$742,098                        | \$18,118                                       | \$(172,939)                | \$(9)             | \$2,756,230          | \$3,840,128 |

The accompanying notes are an integral part of these financial statements.

### Three months ended December 31:

| Millions of yen  |                            |                 |                                  |  |                            |                   |                      |                 |
|--|----------------------------|-----------------|----------------------------------|--|----------------------------|-------------------|----------------------|-----------------|
|  | Number of<br>shares issued | Common<br>stock | Additional<br>paid-in<br>capital | Net unrealized<br>gains on other<br>securities | Translation<br>adjustments | Treasury<br>stock | Retained<br>earnings | Total           |
| Balance at September 30, 2002                              | 151,864,592                | ¥12,531         | ¥10,259                          | ¥(73)  | ¥(6,253)                   | ¥(0)              | ¥255,571             | ¥272,035        |
| Net income for the three months ended<br>December 31, 2002 | -                          | -               | -                                | -  | -                          | -                 | 1,864                | 1,864           |
| Cash dividends   | -                          | -               | -                                | -  | -                          | -                 | (1,367)              | (1,367)         |
| Changes due to subsidiaries newly consolidated             | -                          | -               | -                                | -  | -                          | -                 | 266                  | 266             |
| Net unrealized losses on other securities                  | -                          | -               | -                                | (680)  | -                          | -                 | -                    | (680)           |
| Translation adjustments                                    | -                          | -               | -                                | -  | (1,061)                    | -                 | -                    | (1,061)         |
| Balance at December 31, 2002                               | <u>151,864,592</u>         | <u>¥12,531</u>  | <u>¥10,259</u>                   | <u>¥(753)</u>                                  | <u>¥(7,314)</u>            | <u>¥(0)</u>       | <u>¥256,334</u>      | <u>¥271,057</u> |
| Balance at September 30, 2003                              | 196,364,592                | ¥53,204         | ¥79,501                          | ¥1,856   | ¥(15,565)                  | ¥(0)              | ¥279,874             | ¥398,870        |
| Net income for the three months ended<br>December 31, 2003 | -                          | -               | -                                | -  | -                          | -                 | 17,168               | 17,168          |
| Cash dividends   | -                          | -               | -                                | -  | -                          | -                 | (1,767)              | (1,767)         |
| Net unrealized gain on other securities                    | -                          | -               | -                                | 85   | -                          | -                 | -                    | 85              |
| Translation adjustments                                    | -                          | -               | -                                | -  | (2,962)                    | -                 | -                    | (2,962)         |
| Changes in treasury stock                                  | -                          | -               | -                                | -  | -                          | (1)               | -                    | (1)             |
| Balance at December 31, 2003                               | <u>196,364,592</u>         | <u>¥53,204</u>  | <u>¥79,501</u>                   | <u>¥1,941</u>                                  | <u>¥(18,527)</u>           | <u>¥(1)</u>       | <u>¥295,275</u>      | <u>¥411,393</u> |

| Thousands of U.S. dollars                                  |                  |                               |  |                            |                   |                      |                    |
|--|------------------|-------------------------------|--|----------------------------|-------------------|----------------------|--------------------|
|  | Common<br>stock  | Additional<br>paid-in capital | Net unrealized<br>gains on other<br>securities | Translation<br>adjustments | Treasury<br>stock | Retained<br>earnings | Total              |
| Balance at September 30, 2003                              | \$496,630        | \$742,098                     | \$17,325                                       | \$(145,291)                | \$(0)             | \$2,612,471          | \$3,723,233        |
| Net income for the three months ended<br>December 31, 2003 | -                | -                             | -  | -                          | -                 | 160,253              | 160,253            |
| Cash dividends   | -                | -                             | -  | -                          | -                 | (16,494)             | (16,494)           |
| Net unrealized gain on other securities                    | -                | -                             | 793  | -                          | -                 | -                    | 793                |
| Translation adjustments                                    | -                | -                             | -  | (27,648)                   | -                 | -                    | (27,648)           |
| Changes in treasury stock                                  | -                | -                             | -  | -                          | (9)               | -                    | (9)                |
| Balance at December 31, 2003                               | <u>\$496,630</u> | <u>\$742,098</u>              | <u>\$18,118</u>                                | <u>\$(172,939)</u>         | <u>\$(9)</u>      | <u>\$2,756,230</u>   | <u>\$3,840,128</u> |

The accompanying notes are an integral part of these financial statements.

# SEIKO EPSON CORPORATION

## Consolidated Statements of Cash Flows (Unaudited)

Nine months ended December 31:

|   | Millions of yen                   |           |          | Thousands of U.S. dollars |                                      |
|---|-----------------------------------|-----------|----------|---------------------------|--------------------------------------|
|   | Nine months ended<br>December 31, |           |          | Year ended<br>March 31,   | Nine months<br>ended<br>December 31, |
|   | 2003                              | 2002      | Change   | 2003                      | 2003                                 |
| Cash flows from operating activities:   |                                   |           |          |                           |                                      |
| Net income  | ¥33,731                           | ¥3,969    | ¥29,762  | ¥12,510                   | \$314,860                            |
| Adjustments to reconcile net income to net cash provided by operating activities- |                                   |           |          |                           |                                      |
| Depreciation and amortization   | 81,888                            | 92,206    | (10,318) | 127,406                   | 764,380                              |
| Reorganization costs  | 2,044                             | 23,112    | (21,068) | 23,002                    | 19,080                               |
| Accrual for net pension and severance costs , less payments                       | (2,430)                           | (193)     | (2,237)  | (18,212)                  | (22,683)                             |
| Net loss on sales and disposal of property, plant and equipment                   | 2,214                             | 1,756     | 458      | 1,978                     | 20,667                               |
| Equity in net (gains) losses under the equity method                              | (166)                             | 37        | (203)    | 95                        | (1,550)                              |
| Deferred income taxes   | 8,350                             | 148       | 8,202    | 6,289                     | 77,943                               |
| (Increase) decrease in allowance for doubtful accounts                            | 54                                | 258       | (204)    | (459)                     | 504                                  |
| Increase (decrease) in accrued income taxes                                       | 3,565                             | (3,236)   | 6,801    | (1,839)                   | 33,277                               |
| (Increase) decrease in notes and accounts receivable, trade                       | (36,397)                          | (8,813)   | (27,584) | 20,636                    | (339,746)                            |
| (Increase) decrease in inventories  | (6,737)                           | (24,743)  | 18,006   | 2,471                     | (62,886)                             |
| Increase (decrease) in notes and accounts payable, trade                          | 41,591                            | 35,176    | 6,415    | (3,613)                   | 388,229                              |
| Other   | 10,883                            | (10,697)  | 21,580   | (10,760)                  | 101,587                              |
| Net cash provided by operating activities   | 138,590                           | 108,980   | 29,610   | 159,504                   | 1,293,662                            |
| Cash flows from investing activities:   |                                   |           |          |                           |                                      |
| Payment for purchases of property, plant and equipment                            | (52,312)                          | (64,995)  | 12,683   | (85,274)                  | (488,304)                            |
| Proceeds from sales of property, plant and equipment                              | 3,712                             | 4,608     | (896)    | 7,872                     | 34,649                               |
| Payments for purchases of intangible assets                                       | (6,095)                           | (5,403)   | (692)    | (8,898)                   | (56,894)                             |
| Payments of long-term prepaid expenses  | (348)                             | (4,339)   | 3,991    | (10,943)                  | (3,248)                              |
| Other   | 3,258                             | (2,326)   | 5,584    | (10,700)                  | 30,412                               |
| Net cash used in investing activities   | (51,785)                          | (72,455)  | 20,670   | (107,943)                 | (483,385)                            |
| Cash flows from financing activities:   |                                   |           |          |                           |                                      |
| Decrease in short-term borrowings   | (65,240)                          | (18,851)  | (46,389) | (56,723)                  | (608,980)                            |
| Proceeds from long-term debt  | 52,500                            | 122,928   | (70,428) | 150,644                   | 490,059                              |
| Repayments of long-term debt  | (63,542)                          | (56,519)  | (7,023)  | (81,568)                  | (593,130)                            |
| Issuance of common stock  | 109,915                           | -         | 109,915  | -                         | 1,025,996                            |
| Cash dividends  | (3,134)                           | (2,734)   | (400)    | (2,734)                   | (29,254)                             |
| Other   | 182                               | (427)     | 609      | (508)                     | 1,699                                |
| Net cash provided by financing activities   | 30,681                            | 44,397    | (13,716) | 9,111                     | 286,390                              |
| Effect of exchange rate fluctuations on cash and cash equivalents                 | (2,803)                           | (314)     | (2,489)  | 307                       | (26,164)                             |
| Net increase in cash and cash equivalents   | 114,683                           | 80,608    | 34,075   | 60,979                    | 1,070,503                            |
| Cash and cash equivalents at beginning of the period                              | 192,288                           | 131,309   | 60,979   | 131,309                   | 1,794,904                            |
| Cash and cash equivalents at end of the period                                    | ¥306,971                          | ¥211,917  | ¥95,054  | ¥192,288                  | \$2,865,407                          |
| Supplemental disclosures of cash flow information:                                |                                   |           |          |                           |                                      |
| Cash received and paid during the year for-                                       |                                   |           |          |                           |                                      |
| Interest and dividend received  | ¥1,227                            | ¥1,825    | ¥(598)   | ¥2,227                    | \$11,453                             |
| Interest paid   | ¥(4,726)                          | ¥(4,871)  | ¥145     | ¥(6,143)                  | \$(44,115)                           |
| Income taxes paid   | ¥(11,880)                         | ¥(11,946) | ¥66      | ¥(14,207)                 | \$(110,893)                          |

The accompanying notes are an integral part of these financial statements.

**Three months ended December 31:**

|  | Millions of yen                    |          |          | Thousands of<br>U.S. dollars |
|--|------------------------------------|----------|----------|------------------------------|
|  | Three months ended<br>December 31, |          |          | Three months<br>ended        |
|  | 2003                               | 2002     | Change   | December 31,<br>2003         |
| Cash flows from operating activities:  |                                    |          |          |                              |
| Net income   | ¥17,168                            | ¥1,864   | ¥15,304  | \$160,253                    |
| Adjustments to reconcile net income to net cash<br>provided by operating activities- |                                    |          |          |                              |
| Depreciation and amortization  | 28,020                             | 32,906   | (4,886)  | 261,551                      |
| Reorganization costs   | 481                                | 23,112   | (22,631) | 4,490                        |
| Accrual for net pension and severance costs, less<br>payments                        | (701)                              | (170)    | (531)    | (6,543)                      |
| Net loss on sales and disposal of property, plant<br>and equipment                   | 418                                | 770      | (352)    | 3,902                        |
| Equity in net (gains) losses under the equity<br>method                              | (45)                               | 72       | (117)    | (420)                        |
| Deferred income taxes  | 2,307                              | 2,618    | (311)    | 21,535                       |
| (Increase) decrease in allowance for doubtful<br>accounts                            | 11                                 | 222      | (211)    | 103                          |
| Increase (decrease) in accrued income taxes  | 5,829                              | (1,465)  | 7,294    | 54,410                       |
| Increase in notes and accounts receivable, trade                                     | (39,336)                           | (32,187) | (7,149)  | (367,180)                    |
| (Increase) decrease in inventories   | 8,003                              | (9,049)  | 17,052   | 74,704                       |
| Increase in notes and accounts payable, trade  | 25,030                             | 30,518   | (5,488)  | 233,641                      |
| Other  | 18,313                             | 2,804    | 15,509   | 170,942                      |
| Net cash provided by operating activities  | 65,498                             | 52,015   | 13,483   | 611,388                      |
| Cash flows from investing activities:  |                                    |          |          |                              |
| Payment for purchases of property, plant and<br>equipment                            | (10,743)                           | (11,915) | 1,172    | (100,280)                    |
| Proceeds from sales of property, plant and equipment                                 | 2,000                              | 945      | 1,055    | 18,669                       |
| Payments for purchases of intangible assets  | (1,307)                            | (1,611)  | 304      | (12,200)                     |
| Payments of long-term prepaid expenses   | (224)                              | (2,198)  | 1,974    | (2,091)                      |
| Other  | 457                                | 8,680    | (8,223)  | 4,266                        |
| Net cash used in investing activities  | (9,817)                            | (6,099)  | (3,718)  | (91,636)                     |
| Cash flows from financing activities:  |                                    |          |          |                              |
| Decrease in short-term borrowings  | (41,408)                           | (11,625) | (29,783) | (386,521)                    |
| Proceeds from long-term debt   | 25,000                             | 12,827   | 12,173   | 233,361                      |
| Repayments of long-term debt   | (653)                              | (2,188)  | 1,535    | (6,095)                      |
| Cash dividends   | (1,767)                            | (1,367)  | (400)    | (16,494)                     |
| Other  | 288                                | (71)     | 359      | 2,688                        |
| Net cash provided by financing activities  | (18,540)                           | (2,424)  | (16,116) | (173,061)                    |
| Effect of exchange rate fluctuations on cash and cash<br>equivalents                 | (179)                              | 661      | (840)    | (1,671)                      |
| Net increase in cash and cash equivalents  | 36,962                             | 44,153   | (7,191)  | 345,020                      |
| Cash and cash equivalents at beginning of the period                                 | 270,009                            | 167,764  | 102,245  | 2,520,387                    |
| Cash and cash equivalents at end of the period                                       | ¥306,971                           | ¥211,917 | ¥95,054  | \$2,865,407                  |
| Supplemental disclosures of cash flow information:                                   |                                    |          |          |                              |
| Cash received and paid during the year for-  |                                    |          |          |                              |
| Interest and dividend received   | ¥366                               | ¥354     | ¥12      | \$3,416                      |
| Interest paid  | ¥(1,467)                           | ¥(1,196) | ¥(271)   | \$(13,694)                   |
| Income taxes paid  | ¥(3,656)                           | ¥(3,232) | ¥(424)   | \$(34,127)                   |

The accompanying notes are an integral part of these financial statements.

**Notes to Consolidated Financial Statements (Unaudited)**

1. Basis of presenting consolidated financial statements:

(1) Background -

Seiko Epson Corporation (the "Company") was originally established as a manufacturer of watches but later expanded its business to provide key devices and solutions for the digital color imaging markets through the application of its proprietary technologies. The Company operates its manufacturing and sales business mainly in Japan, the Americas, Europe and Asia/Oceania.

(2) Basis of presenting consolidated financial statements -

The Company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan while its foreign subsidiaries maintain their records and prepare their financial statements in conformity with accounting principles generally accepted in their respective country of domicile. The accompanying consolidated financial statements of the Company and its consolidated subsidiaries and affiliates (collectively "Epson") as of December 31, 2003, and for the nine months ended December 31, 2003 are an English translation of the Japanese consolidated financial statements of Epson, which have been prepared in accordance with accounting principles and practices generally accepted in Japan. The interim consolidated financial statements reflect all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary to present a fair statement of the results of the interim period presented. The results of operations for any interim period are not necessarily indicative of results for the full year.

The accompanying consolidated financial statements incorporate certain reclassifications and rearrangements in order to present them in a form that is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information that is not required under generally accepted accounting principles and practices in Japan, but which is provided herein as additional information. However, none of the reclassifications nor rearrangements have a material effect on the financial statements.

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of significant accounting policies:

(1) Consolidation and investments in affiliates -

The accompanying consolidated financial statements include the accounts of the Company and those of its subsidiaries that are controlled by Epson. Under the effective control approach, all majority-owned

companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent in accordance with Japanese accounting standards. All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated upon consolidation.

Investments in affiliates in which Epson has significant influence are accounted for using the equity method. Consolidated income includes Epson's current equity in net income or loss of affiliates after elimination of unrealized inter-company profits.

(2) Translation of foreign currency transactions and accounts -

Foreign currency transactions are translated using foreign exchange rates prevailing at the respective transaction dates. Receivables and payables in foreign currencies are translated at the foreign exchange rates prevailing at the respective balance sheet dates.

All the assets and liabilities of foreign subsidiaries and affiliates are translated at the foreign exchange rates prevailing at the respective balance sheet dates, and all the income and expense accounts are translated at the average foreign exchange rates for the respective periods. Foreign currency financial statement translation differences are recorded in the consolidated balance sheet as a separate component of shareholders' equity.

(3) Cash and cash equivalents -

Cash and cash equivalents included in the consolidated financial statements are composed of cash on hand, bank deposits that may be withdrawn on demand and highly liquid investments purchased with initial maturities of three months or less and which represent low risk of fluctuation in value.

(4) Financial instruments -

(a) Investments in debt and equity securities:

Investments in debt and equity securities are classified into three categories: 1) trading securities; 2) held-to-maturity debt securities; and 3) other securities. These categories are treated differently for purposes of measuring and accounting for changes in fair value.

Trading securities held for the purpose of generating profits from changes in market value are recognized at their fair value in the consolidated balance sheets. Unrealized gains and losses are included in current income. Held-to-maturity debt securities are expected to be held to maturity and are recognized at historical or amortized cost in the consolidated balance sheets. Other securities for which market quotations are available are recognized at fair value in the



consolidated balance sheets. Unrealized gains and losses for these other securities are reported as a separate component of shareholders' equity, net of tax. Other securities for which market quotations are unavailable are stated at cost, based on the weighted average cost method. Other than temporary declines in the value of other securities are reflected in current income.

(b) Derivative financial instruments:

Derivative instruments (i.e., forward exchange contracts, interest rate swaps and currency options) are recognized as either assets or liabilities at their respective fair values at the date of contract, and gains and losses arising from changes in fair value are recognized in earnings in the corresponding fiscal period. If certain hedging criteria are met, such gains and losses are deferred and accounted for as assets or liabilities.

(c) Allowance for doubtful accounts:

Allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses for doubtful receivables plus an amount for receivables other than doubtful receivables calculated using historical write-off experience from certain prior periods.

(5) Inventories -

Inventories are stated at the lower of cost or market value, where cost is primarily determined using the weighted average cost method.

(6) Property, plant and equipment -

Property, plant and equipment, including significant renewals and improvements, are carried at cost less accumulated depreciation. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred. Depreciation of property, plant and equipment is mainly computed based on the declining-balance method for the Company and its Japanese subsidiaries and on the straight-line method for foreign subsidiaries at rates based on the estimated useful lives. For buildings acquired by the Company and its Japanese subsidiaries on or after April 1, 1998, depreciation is computed based on the straight-line method, which is prescribed by Japanese income tax laws. When property, plant or equipment is retired or disposed of, the difference between the net book value and sales proceeds, if any, is charged or credited to income.

The estimated useful lives of depreciable assets principally range from eight to fifty years for buildings and structures and principally range from two to eleven years for machinery and equipment.

(7) Intangible assets -

Amortization of intangible assets is computed using the straight-line method. Amortization of software for internal use is computed using the straight-line method over their estimated useful lives, ranging from

three to five years.

(8) Accrued bonuses -

Accrued bonuses to employees are provided for the estimated amounts which Epson is obligated to pay to employees after the fiscal year-end, based on services provided during the current period.

(9) Accrued warranty costs -

Epson provides an accrual for estimated future warranty costs based on the historical relationship of warranty costs to net sales. Specific warranty provisions are made for those products where warranty expenses can be specifically estimated.

(10) Income taxes -

The provision for income taxes is computed based on income before income taxes and minority interest in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities.

In May 29, 2003 the Company obtained approval from the National tax agency for filing consolidated tax returns from the year beginning April 1, 2003. The Company has adopted the consolidated tax return system for the calculation of income taxes effective from the six months ended September 30, 2003.

(11) Pension and severance costs -

The Company and some of its Japanese subsidiaries maintain a contributory defined benefit welfare pension plan (the "welfare pension plan") covering substantially all of their employees. The welfare pension plan is funded in conformity with the funding requirements of the Japanese Welfare Pension Insurance Law. The welfare pension plan covers the substitutional portion of the governmental welfare pension program and non-substitutional portion under which contributions are made by these companies and their employees.

To supplement the welfare pension plan, the Company and some of its Japanese subsidiaries maintain tax qualified pension plans which are non-contributory defined benefit pension plans. These companies contribute amounts required to maintain sufficient plan assets to provide for accrued benefits, subject to limitations on expense deductibility under Japanese income tax laws.

Pension benefits are determined based on years of service, basic rates of pay and conditions under which the termination occurs, and are payable at the option of the retiring employee either in a lump-sum amount or as an annuity. Contributions to the plans are funded through several financial institutions in accordance

with the applicable laws and regulations.

Unrecognized prior service costs and actuarial gains and losses are amortized based on the straight-line method over a period of five years.

Most of the Company's foreign subsidiaries have various retirement plans, which are primarily defined contribution plans, covering substantially all of their employees. Epson's funding policy for these defined contribution plans is to contribute annually an amount equal to a certain percentage of the participants' annual salaries.

With respect to the Company's directors and statutory auditors, who are not covered by the benefit plans for employees described above, provision is made for retirement benefits based on internal rules regarding directors' and statutory auditors' retirement benefits. In accordance with the Commercial Code of Japan, payments of retirement benefits for directors and statutory auditors are subject to approval by a resolution at the Company's shareholders' meeting.

(12) Revenue recognition -

Revenue from sale of goods is recognized at the time when goods are shipped. Revenue from services is recognized when services are rendered and accepted by customers.

(13) Research and development costs -

Research and development costs are expensed as incurred.

(14) Leases -

Epson leases certain office space, machinery and equipment and computer equipment from third parties.

Under Japanese accounting standards, capital leases, other than those under which ownership of the assets will be transferred to the lessee at the end of the lease term, are allowed to be accounted for as operating leases with footnote disclosure of the estimated acquisition cost, estimated accumulated depreciation and future estimated lease payments.

Epson has recorded substantially all leases as operating leases in the manner described in the preceding paragraph.

(15) Net income per share -

Net income per share is computed based on the weighted average number of shares of common stock

outstanding during each applicable period.

On September 25, 2002, the Accounting Standards Board of Japan issued new accounting standards concerning accounting for net income per share, effective for fiscal years beginning on or after April 1, 2002. Epson has adopted these new accounting standards from the fiscal year commencing on April 1, 2002. Under the new accounting standards, "bonuses to directors and statutory auditors", which is determined through appropriation of retained earnings by resolution of general shareholders' meeting subsequent to fiscal year-end and not reflected in the accounts of the current year, should be reflected in the calculation of net income per share, as if "bonuses to directors and statutory auditors" was charged to income in the current year.

(16) Appropriations of retained earnings -

Appropriations of retained earnings reflected in the accompanying consolidated financial statements have been recorded after approval by the shareholders as required under the Commercial Code of Japan. In addition to year-end dividends, the board of directors may declare interim cash dividends by resolution to the shareholders of record as of September 30 of each year.

3. U.S. dollar amounts:

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers and are not audited. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate. As the amounts shown in U.S. dollars are for convenience only, a rate of ¥107.13 = U.S.\$1, the rate of exchange prevailing at December 31, 2003, has been used.

4. Notes receivable and notes payable maturing at period-end:

Notes receivable and notes payable are settled on the date of clearance. As December 31, 2003 was a bank holiday, notes receivable and notes payable maturing on that date could not be settled were included in the ending balance of notes and accounts receivable, trade and notes accounts payable, trade as follows:

|                  | <u>Millions of yen</u> | <u>Thousands of<br/>U.S. dollars</u> |
|------------------|------------------------|--------------------------------------|
| Notes receivable | ¥594                   | \$5,545                              |
| Notes payable    | 3,536                  | 33,007                               |

5. Investments in debt and equity securities:

The aggregate cost and market value (carrying value) of other securities with market values, which was

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included in investment securities at December 31, 2003 was as follows:

|                   | Millions of yen   |                           |               |                                  |
|-------------------|-------------------|---------------------------|---------------|----------------------------------|
|                   | December 31, 2003 |                           |               | Market value<br>(carrying value) |
|                   | Cost              | Gross unrealized<br>Gains | Losses        |                                  |
| Equity securities | ¥4,338            | ¥3,305                    | ¥(127)        | ¥7,516                           |
| Debt securities   | 52                | 4                         | -             | 56                               |
| Other             | 598               | 91                        | (6)           | 683                              |
| Total             | <u>¥4,988</u>     | <u>¥3,400</u>             | <u>¥(133)</u> | <u>¥8,255</u>                    |

|                   | Thousands of U.S. dollars |                           |                  |                                  |
|-------------------|---------------------------|---------------------------|------------------|----------------------------------|
|                   | December 31, 2003         |                           |                  | Market value<br>(carrying value) |
|                   | Cost                      | Gross unrealized<br>Gains | Losses           |                                  |
| Equity securities | \$40,493                  | \$30,850                  | \$(1,185)        | \$70,158                         |
| Debt securities   | 485                       | 38                        | -                | 523                              |
| Other             | 5,582                     | 849                       | (56)             | 6,375                            |
| Total             | <u>\$46,560</u>           | <u>\$31,737</u>           | <u>\$(1,241)</u> | <u>\$77,056</u>                  |

The carrying amount of unlisted investment securities at December 31, 2003 was ¥19,215 million (\$179,362 thousand).

For the nine months ended December 31, 2003, devaluation of the values of other securities with an aggregate market value of ¥0 million (\$0 thousand) was charged to current income. The devaluation is principally recorded in cases where the fair value of other securities with determinable market values has declined in excess of 30% of cost. Those securities are written down to the fair value and the resulting losses are included in current income for the period.

## 6. Derivative financial instruments:

Epson enters into forward exchange contracts, currency options and interest rate swaps. Forward exchange contracts and currency options are utilized to hedge currency risk exposures. Interest rate swaps are utilized to hedge against possible future changes in interest rates on floating rate borrowings. Epson uses derivative instruments only for hedging purposes and not for purposes of trading or speculation.

The table below lists contract amounts, notional amounts and fair values of derivatives as at December 31, 2003 by transactions and type of instrument, excluding derivatives eligible for hedge accounting.

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|  | Millions of yen   |             |                              |
|--|-------------------|-------------|------------------------------|
|  | December 31, 2003 |             |                              |
| Instruments  | Contract amounts  | Fair values | Unrealized gains<br>(losses) |
| Forward exchange contracts:                                |                   |             |                              |
| Sold -   |                   |             |                              |
| U.S. dollar (purchased Japanese yen)                       | ¥5,828            | ¥5,645      | ¥183                         |
| Euro (purchased Japanese yen)                              | 39,497            | 40,110      | (613)                        |
| Sterling pound (purchased Japanese yen)                    | 946               | 967         | (21)                         |
| Australian dollar (purchased Japanese yen)                 | 453               | 457         | (4)                          |
| Thai baht (purchased U.S. dollar)                          | 271               | 271         | (0)                          |
| Swiss francs (purchased Euro)                              | 271               | 270         | 1                            |
| Polish zloty (purchased Euro)                              | 344               | 341         | 3                            |
| Japanese yen (purchased Euro)                              | 446               | 441         | 5                            |
| Purchased -  |                   |             |                              |
| U.S. dollar (sold Japanese yen)                            | 136               | 135         | (1)                          |
| U.S. dollar (sold Taiwan dollar)                           | 427               | 429         | 2                            |
| Euro (sold Japanese yen)                                   | 66                | 66          | 0                            |
| Total unrealized losses from forward<br>exchange contracts |                   |             | ¥(445)                       |

|  | Thousands of U.S. dollars |             |                              |
|--|---------------------------|-------------|------------------------------|
|  | December 31, 2003         |             |                              |
| Instruments  | Contract amounts          | Fair values | Unrealized gains<br>(losses) |
| Forward exchange contracts:                                |                           |             |                              |
| Sold -   |                           |             |                              |
| U.S. dollar (purchased Japanese yen)                       | \$54,401                  | \$52,693    | \$1,708                      |
| Euro (purchased Japanese yen)                              | 368,683                   | 374,405     | (5,722)                      |
| Sterling pound (purchased Japanese yen)                    | 8,830                     | 9,026       | (196)                        |
| Australian dollar (purchased Japanese yen)                 | 4,229                     | 4,266       | (37)                         |
| Thai baht (purchased U.S. dollar)                          | 2,529                     | 2,529       | 0                            |
| Swiss francs (purchased Euro)                              | 2,529                     | 2,520       | 9                            |
| Polish zloty (purchased Euro)                              | 3,211                     | 3,183       | 28                           |
| Japanese yen (purchased Euro)                              | 4,163                     | 4,116       | 47                           |
| Purchased -  |                           |             |                              |
| U.S. dollar (sold Japanese yen)                            | 1,269                     | 1,260       | (9)                          |
| U.S. dollar (sold Taiwan dollar)                           | 3,986                     | 4,004       | 18                           |
| Euro (sold Japanese yen)                                   | 616                       | 616         | 0                            |
| Total unrealized losses from forward<br>exchange contracts |                           |             | <u>\$(4,154)</u>             |

There were no interest rate swap transactions outstanding at December 31, 2003.

These forward exchange contracts were entered into for hedging purposes. Unrealized gains and losses from these contracts are recognized in earnings. Forward exchange contracts assigned individually to monetary items denominated in foreign currencies are excluded from the above table.

7. Assets pledged as collateral for secured loans and debt:

Assets pledged as collateral for secured loans and debt at December 31, 2003 was as follows:

| <u>Pledged assets</u>    | <u>Millions of yen</u> | <u>Thousands of<br/>U.S. dollars</u> |
|--------------------------|------------------------|--------------------------------------|
| Land                     | ¥386                   | \$3,603                              |
| Buildings and structures | 1,493                  | 13,936                               |
| Machinery and equipment  | 398                    | 3,715                                |
| Furniture and fixtures   | 20                     | 187                                  |
| Total                    | <u>¥2,297</u>          | <u>\$21,441</u>                      |

| <u>Secured loans and debt</u>     | <u>Millions of yen</u> | <u>Thousands of<br/>U.S. dollars</u> |
|-----------------------------------|------------------------|--------------------------------------|
| Current portion of long-term debt | <u>¥73</u>             | <u>\$681</u>                         |

In the nine months ended December 31, 2003, Epson has line of credit agreements with four banks for an aggregate maximum amount of ¥40,000 million (\$373,378 thousand). As at December 31, 2003, there were unused credit lines of ¥40,000 million (\$373,378 thousand) outstanding and available.

8. Pension Plan:

On July 15, 2003, the Company and, on August 22, 2003, one consolidated subsidiary decided to change approximately half of its tax-qualified pension plans from defined benefit plans to new non-tax-qualified defined contribution plans and the remaining half from tax-qualified defined benefit plans to new non-tax-qualified defined benefit plans both beginning April 1, 2004. The Company is in the process of estimating the effect on income for this plan amendment for the year ending March 31, 2004 in accordance with "Accounting for Transfers between Retirement Benefit Plans" ("Financial Accounting Standards Implementation Guidance No.1" issued by Accounting Standards Board of Japan). In order to effect the change, the Company and one consolidated subsidiary must make a contribution to the pension fund for the unfunded portion of the tax-qualified defined benefit plans at the date of transfer, March 31, 2004. The additional contribution amount has not yet been determined.

9. Shareholders' equity:

The shares of common stock were listed on the First Section of the Tokyo Stock Exchange on June 24, 2003. At the same time as the listing, 40,000,000 shares of common stock were issued by the Company with the aggregate net proceeds of ¥98,800 million (\$922,244 thousand). Of the 40,000,000 shares, 23,805,500 shares of common stock were offered in Japan and 16,194,500 were offered outside of Japan in an international offering. As a result of this issuance, common stock and additional paid-in capital increased ¥36,560 (\$341,268 thousand) and ¥62,240 (\$580,976 thousand), respectively.

In addition to the 40,000,000 shares of common stock issued on June 24, 2003, Nikko Citigroup Limited offered to the public in Japan 4,500,000 existing shares in order to provide for an over-allotment and to create a short position in the shares of common stock. In connection with the offering of the over-allotted shares, a resolution at the board of directors' meeting held on June 16, 2003 was made for Epson to grant Nikko Citigroup Limited an option to purchase 4,500,000 new shares of common stock solely to cover the short position in the shares of common stock created by the offering of the over-allotted shares. Nikko Citigroup Limited exercised this option on July 18, 2003 and payment to Epson was completed on July 23, 2003. As a result, 4,500,000 shares of common stock were issued on July 24, 2003. Due to this issuance, common stock and additional paid-in capital increased ¥4,113 million (\$38,392 thousand) and ¥7,002 million (\$65,360 thousand), respectively, resulting in 196,364,592 shares of outstanding common stock. Epson intends to use the proceeds for financing capital expenditures and for research and development.

#### 10. Net income per share:

Net income per share for the nine months ended December 31, 2003 is as follows:

|  | Millions of yen | Thousands of<br>U.S. dollars |
|--|-----------------|------------------------------|
| Net income attributable to common shares             | ¥33,731         | \$314,860                    |
| Weighted average number of common shares outstanding | 182,280,825     |                              |
|  | Yen             | U.S. dollars                 |
| Net income per share:                                |                 |                              |
| -Basic   | ¥185.04         | \$1.73                       |
| -Diluted   | ¥184.84         | \$1.73                       |

In connection with the offering of the over-allotted shares granted to Nikko Citigroup Limited, 206,553 potential common shares were included in the diluted number of shares outstanding.

#### 11. Reorganization costs:

The reorganization costs for the nine months ended December 31, 2003 mainly represents reorganization for certain overseas manufacturing plants in the display business.

#### 12. Cash flow information:

Cash and cash equivalents at December 31, 2003 was composed of the following:



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|   | Millions of yen | Thousands of<br>U.S. dollars |
|---|-----------------|------------------------------|
| Cash and deposits                           | ¥313,230        | \$2,923,831                  |
| Investment securities                       | 1               | 9                            |
| Sub-total                                   | 313,231         | 2,923,840                    |
| Less:                                       |                 |                              |
| Short-term bank loans (overdrafts)          | (5,847)         | (54,578)                     |
| Time deposits due over three months         | (412)           | (3,846)                      |
| Investments held for more than three months | (1)             | (9)                          |
| Cash and cash equivalents                   | ¥306,971        | \$2,865,407                  |

## 13. Leases:

As described in Note 2 (14), Epson, as a lessee, charges periodic capital lease payments to expense when paid. Such payments for the nine months ended December 31, 2003 amounted to ¥2,718 million (\$25,371 thousand).

If capital leases that do not transfer the ownership of the assets to the lessee at the end of the lease term were capitalized, the capital lease assets at December 31, 2003 would have been as follows:

|                                | Millions of yen | Thousands of<br>U.S. dollars |
|--------------------------------|-----------------|------------------------------|
| Acquisition cost:              |                 |                              |
| Machinery and equipment        | ¥2,703          | \$25,231                     |
| Furniture and fixtures         | 6,585           | 61,467                       |
| Intangible assets              | 1,413           | 13,190                       |
|                                | 10,701          | 99,888                       |
| Less: accumulated depreciation | 6,425           | 59,974                       |
| Net book value                 | ¥4,276          | \$39,914                     |

Depreciation expenses for these leased assets for the nine months ended December 31, 2003 would have been ¥2,515 million (\$23,476 thousand), if they were computed in accordance with the straight-line method over the periods of these capital leases, assuming no remaining value.

Interest expense for these capital leases for the nine months ended December 31, 2003 would have been ¥82 million (\$765 thousand).

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Future lease payments for capital leases at December 31, 2003 was as follows:

| <u>Future lease payments</u> | <u>Millions of yen</u> | <u>Thousands of<br/>U.S. dollars</u> |
|------------------------------|------------------------|--------------------------------------|
| Due within one year          | ¥2,041                 | \$19,052                             |
| Due after one year           | <u>2,308</u>           | <u>21,544</u>                        |
| Total                        | <u>¥4,349</u>          | <u>\$40,596</u>                      |

Future lease payments for non-cancelable operating leases as a lessee at December 31, 2003 were as follows:

| <u>Future lease payments</u> | <u>Millions of yen</u> | <u>Thousands of<br/>U.S. dollars</u> |
|------------------------------|------------------------|--------------------------------------|
| Due within one year          | ¥2,969                 | \$27,714                             |
| Due after one year           | <u>9,997</u>           | <u>93,317</u>                        |
| Total                        | <u>¥12,966</u>         | <u>\$121,031</u>                     |

In addition, future lease receipts for non-cancelable operating leases as a lessor at December 31, 2003 were as follows:

| <u>Future lease receipts</u> | <u>Millions of yen</u> | <u>Thousands of<br/>U.S. dollars</u> |
|------------------------------|------------------------|--------------------------------------|
| Due within one year          | ¥304                   | \$2,838                              |
| Due after one year           | <u>2,077</u>           | <u>19,387</u>                        |
| Total                        | <u>¥2,381</u>          | <u>\$22,225</u>                      |

## 14. Commitments and contingent liabilities:

Contingent liabilities for guarantee of employees' housing loans from banks at December 31, 2003 was ¥3,900 million (\$36,404 thousand). Furthermore, the amount of discounted notes, which consisted of discounted letters of credit, at December 31, 2003 was ¥82 million (\$765 thousand).

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## 14. Segment information:

### (1) Business segment information-

|                                | Millions of yen                   |           |           |         | Thousands of U.S. dollars |                                   |
|--------------------------------|-----------------------------------|-----------|-----------|---------|---------------------------|-----------------------------------|
|                                | Nine months ended<br>December 31, |           | Change    |         | Year ended<br>March 31,   | Nine months ended<br>December 31, |
|                                | 2003                              | 2002      |           |         | 2003                      | 2003                              |
| Information-related equipment: |                                   |           |           |         |                           |                                   |
| Net sales                      |                                   |           |           |         |                           |                                   |
| Customers                      | ¥685,257                          | ¥679,434  | ¥5,823    | 0.9%    | ¥911,459                  | \$6,396,499                       |
| Inter-segment                  | 1,992                             | 3,536     | (1,544)   | (43.7%) | 4,398                     | 18,594                            |
| Total                          | 687,249                           | 682,970   | 4,279     | 0.6%    | 915,857                   | 6,415,093                         |
| Operating expenses             | 644,600                           | 615,031   | 29,569    | 4.8%    | 835,431                   | 6,016,989                         |
| Operating income               | ¥42,649                           | ¥67,939   | ¥(25,290) | (37.2%) | ¥80,426                   | \$398,104                         |
| Electronic devices:            |                                   |           |           |         |                           |                                   |
| Net sales                      |                                   |           |           |         |                           |                                   |
| Customers                      | ¥307,976                          | ¥238,270  | ¥69,706   | 29.3%   | ¥328,460                  | \$2,874,788                       |
| Inter-segment                  | 20,897                            | 21,424    | (527)     | (2.5%)  | 25,828                    | 195,062                           |
| Total                          | 328,873                           | 259,694   | 69,179    | 26.6%   | 354,288                   | 3,069,850                         |
| Operating expenses             | 300,718                           | 282,570   | 18,148    | 6.4%    | 382,288                   | 2,807,038                         |
| Operating income (loss)        | ¥28,155                           | ¥(22,876) | ¥51,031   | -       | ¥(28,000)                 | \$262,812                         |
| Precision products:            |                                   |           |           |         |                           |                                   |
| Net sales                      |                                   |           |           |         |                           |                                   |
| Customers                      | ¥58,967                           | ¥60,072   | ¥(1,105)  | (1.8%)  | ¥77,155                   | \$550,425                         |
| Inter-segment                  | 2,305                             | 1,940     | 365       | 18.8%   | 2,590                     | 21,516                            |
| Total                          | 61,272                            | 62,012    | (740)     | (1.2%)  | 79,745                    | 571,941                           |
| Operating expenses             | 58,252                            | 60,788    | (2,536)   | (4.2%)  | 79,100                    | 543,751                           |
| Operating income               | ¥3,020                            | ¥1,224    | ¥1,796    | 146.7%  | ¥645                      | \$28,190                          |
| Other:                         |                                   |           |           |         |                           |                                   |
| Net sales                      |                                   |           |           |         |                           |                                   |
| Customers                      | ¥3,724                            | ¥3,924    | ¥(200)    | (5.1%)  | ¥5,379                    | \$34,761                          |
| Inter-segment                  | 17,961                            | 13,454    | 4,507     | 33.5%   | 20,931                    | 167,656                           |
| Total                          | 21,685                            | 17,378    | 4,307     | 24.8%   | 26,310                    | 202,417                           |
| Operating expenses             | 30,570                            | 18,480    | 12,090    | 65.4%   | 30,042                    | 285,354                           |
| Operating loss                 | ¥(8,885)                          | ¥(1,102)  | ¥(7,783)  | -       | ¥(3,732)                  | \$(82,937)                        |
| Eliminations and corporate:    |                                   |           |           |         |                           |                                   |
| Net Sales                      | ¥(43,155)                         | ¥(40,354) | ¥(2,801)  | -       | ¥(53,747)                 | \$(402,828)                       |
| Operating expenses             | (43,229)                          | (40,427)  | (2,802)   | -       | (53,768)                  | (403,519)                         |
| Operating income               | ¥74                               | ¥73       | ¥1        | 1.4%    | ¥21                       | \$691                             |
| Consolidated:                  |                                   |           |           |         |                           |                                   |
| Net Sales                      | ¥1,055,924                        | ¥981,700  | ¥74,224   | 7.6%    | ¥1,322,453                | \$9,856,473                       |
| Operating expenses             | 990,911                           | 936,442   | 54,469    | 5.8%    | 1,273,093                 | 9,249,613                         |
| Operating income               | ¥65,013                           | ¥45,258   | ¥19,755   | 43.6%   | ¥49,360                   | \$606,860                         |

Epson is engaged principally in the following three business segments categorized based on the nature of products, markets and marketing methods.

Information-related equipment segment, including color inkjet printers, laser printers, dot matrix printers, multi-function printers, large format printers, and related supplies, color image scanners, LCD projectors, LCD monitors, label writers, mini-printers, printers of use in POS systems and personal computers.

Electronic devices segment, including semiconductor products, small and medium-sized LCD modules, TFT LCD modules for LCD projectors, crystal units and crystal oscillators.

Precision products segment, including watches, watch movements, plastic corrective lenses, precision industrial robots and IC handlers.

Operations not categorized in any of the above segments, such as services offered within Epson and new business still in the start-up phase, are categorized within "Other".

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|                                | Millions of yen                    |           |           |         | Thousands of U.S. dollars          |
|--------------------------------|------------------------------------|-----------|-----------|---------|------------------------------------|
|                                | Three months ended<br>December 31, |           |           |         | Three months ended<br>December 31, |
|                                | 2003                               | 2002      | Change    |         | 2003                               |
| Information-related equipment: |                                    |           |           |         |                                    |
| Net sales                      |                                    |           |           |         |                                    |
| Customers                      | ¥264,120                           | ¥269,568  | ¥(5,448)  | (2.0%)  | \$2,465,416                        |
| Inter-segment                  | 680                                | 1,071     | (391)     | (36.5%) | 6,347                              |
| Total                          | 264,800                            | 270,639   | (5,839)   | (2.2%)  | 2,471,763                          |
| Operating expenses             | 250,351                            | 236,536   | 13,815    | 5.8%    | 2,336,890                          |
| Operating income               | ¥14,449                            | ¥34,103   | ¥(19,654) | (57.6%) | \$134,873                          |
| Electronic devices:            |                                    |           |           |         |                                    |
| Net sales                      |                                    |           |           |         |                                    |
| Customers                      | ¥110,718                           | ¥88,874   | ¥21,844   | 24.6%   | \$1,033,492                        |
| Inter-segment                  | 7,803                              | 7,925     | (122)     | (1.5%)  | 72,837                             |
| Total                          | 118,521                            | 96,799    | 21,722    | 22.4%   | 1,106,329                          |
| Operating expenses             | 99,807                             | 97,425    | 2,382     | 2.4%    | 931,644                            |
| Operating income (loss)        | ¥18,714                            | ¥(626)    | ¥19,340   | -       | \$174,685                          |
| Precision products:            |                                    |           |           |         |                                    |
| Net sales                      |                                    |           |           |         |                                    |
| Customers                      | ¥21,876                            | ¥19,942   | ¥1,934    | 9.7%    | \$204,200                          |
| Inter-segment                  | 815                                | 754       | 61        | 8.1%    | 7,608                              |
| Total                          | 22,691                             | 20,696    | 1,995     | 9.6%    | 211,808                            |
| Operating expenses             | 21,096                             | 20,074    | 1,022     | 5.1%    | 196,920                            |
| Operating income               | ¥1,595                             | ¥622      | ¥973      | 156.4%  | \$14,888                           |
| Other:                         |                                    |           |           |         |                                    |
| Net sales                      |                                    |           |           |         |                                    |
| Customers                      | ¥1,356                             | ¥1,319    | ¥37       | 2.8%    | \$12,658                           |
| Inter-segment                  | 6,539                              | 4,786     | 1,753     | 36.6%   | 61,038                             |
| Total                          | 7,895                              | 6,105     | 1,790     | 29.3%   | 73,696                             |
| Operating expenses             | 10,653                             | 6,993     | 3,660     | 52.3%   | 99,440                             |
| Operating loss                 | ¥(2,758)                           | ¥(888)    | ¥(1,870)  | -       | \$(25,744)                         |
| Eliminations and corporate:    |                                    |           |           |         |                                    |
| Net Sales                      | ¥(15,837)                          | ¥(14,536) | ¥(1,301)  | -       | \$(147,830)                        |
| Operating expenses             | (15,735)                           | (14,305)  | (1,430)   | -       | (146,878)                          |
| Operating loss                 | ¥(102)                             | ¥(231)    | ¥129      | -       | \$(952)                            |
| Consolidated:                  |                                    |           |           |         |                                    |
| Net Sales                      | ¥398,070                           | ¥379,703  | ¥18,367   | 4.8%    | \$3,715,766                        |
| Operating expenses             | 366,172                            | 346,723   | 19,449    | 5.6%    | 3,418,016                          |
| Operating income               | ¥31,898                            | ¥32,980   | ¥(1,082)  | (3.3%)  | \$297,750                          |

# SEIKO EPSON CORPORATION

## (2) Geographic segment information-

|                             | Millions of yen                   |            |           |         | Thousands of U.S. dollars |                                   |
|-----------------------------|-----------------------------------|------------|-----------|---------|---------------------------|-----------------------------------|
|                             | Nine months ended<br>December 31, |            |           |         | Year ended<br>March 31,   | Nine months ended<br>December 31, |
|                             | 2003                              | 2002       | Change    |         | 2003                      | 2003                              |
| Japan:                      |                                   |            |           |         |                           |                                   |
| Net sales                   |                                   |            |           |         |                           |                                   |
| Customers                   | ¥520,211                          | ¥473,259   | ¥46,952   | 9.9%    | ¥637,544                  | \$4,855,885                       |
| Inter-segment               | 369,624                           | 366,885    | 2,739     | 0.7%    | 478,441                   | 3,450,238                         |
| Total                       | 889,835                           | 840,144    | 49,691    | 5.9%    | 1,115,985                 | 8,306,123                         |
| Operating expenses          | 856,479                           | 821,857    | 34,622    | 4.2%    | 1,097,056                 | 7,994,764                         |
| Operating income            | ¥33,356                           | ¥18,287    | ¥15,069   | 82.4%   | ¥18,929                   | \$311,359                         |
| The Americas:               |                                   |            |           |         |                           |                                   |
| Net sales                   |                                   |            |           |         |                           |                                   |
| Customers                   | ¥166,593                          | ¥173,250   | ¥(6,657)  | (3.8%)  | ¥230,263                  | \$1,555,055                       |
| Inter-segment               | 32,251                            | 29,797     | 2,454     | 8.2%    | 39,315                    | 301,045                           |
| Total                       | 198,844                           | 203,047    | (4,203)   | (2.1%)  | 269,578                   | 1,856,100                         |
| Operating expenses          | 191,825                           | 197,735    | (5,910)   | (3.0%)  | 262,468                   | 1,790,582                         |
| Operating income            | ¥7,019                            | ¥5,312     | ¥1,707    | 32.1%   | ¥7,110                    | \$65,518                          |
| Europe:                     |                                   |            |           |         |                           |                                   |
| Net sales                   |                                   |            |           |         |                           |                                   |
| Customers                   | ¥213,510                          | ¥183,085   | ¥30,425   | 16.6%   | ¥258,278                  | \$1,992,999                       |
| Inter-segment               | 2,041                             | 3,519      | (1,478)   | (42.0%) | 5,573                     | 19,052                            |
| Total                       | 215,551                           | 186,604    | 28,947    | 15.5%   | 263,851                   | 2,012,051                         |
| Operating expenses          | 208,253                           | 181,392    | 26,861    | 14.8%   | 260,665                   | 1,943,927                         |
| Operating income            | ¥7,298                            | ¥5,212     | ¥2,086    | 40.0%   | ¥3,186                    | \$68,124                          |
| Asia / Oceania:             |                                   |            |           |         |                           |                                   |
| Net sales                   |                                   |            |           |         |                           |                                   |
| Customers                   | ¥155,610                          | ¥152,106   | ¥3,504    | 2.3%    | ¥196,368                  | \$1,452,534                       |
| Inter-segment               | 369,744                           | 339,223    | 30,521    | 9.0%    | 439,632                   | 3,451,358                         |
| Total                       | 525,354                           | 491,329    | 34,025    | 6.9%    | 636,000                   | 4,903,892                         |
| Operating expenses          | 506,592                           | 471,226    | 35,366    | 7.5%    | 620,376                   | 4,728,760                         |
| Operating income            | ¥18,762                           | ¥20,103    | ¥(1,341)  | (6.7%)  | ¥15,624                   | \$175,132                         |
| Eliminations and corporate: |                                   |            |           |         |                           |                                   |
| Net Sales                   | ¥(773,660)                        | ¥(739,424) | ¥(34,236) | -       | ¥(962,961)                | \$(7,221,693)                     |
| Operating expenses          | (772,238)                         | (735,768)  | (36,470)  | -       | (967,472)                 | (7,208,420)                       |
| Operating loss              | ¥(1,422)                          | ¥(3,656)   | ¥2,234    | -       | ¥4,511                    | \$(13,273)                        |
| Consolidated:               |                                   |            |           |         |                           |                                   |
| Net Sales                   | ¥1,055,924                        | ¥981,700   | ¥74,224   | 7.6%    | ¥1,322,453                | \$9,856,473                       |
| Operating expenses          | 990,911                           | 936,442    | 54,469    | 5.8%    | 1,273,093                 | 9,249,613                         |
| Operating income            | ¥65,013                           | ¥45,258    | ¥19,755   | 43.6%   | ¥49,360                   | \$606,860                         |

Net sales are attributed to geographic segments based on the country location of the Company or the subsidiary that transacted the sale with the external customer.

"The Americas" mainly includes the United States, Canada, Brazil, Chile, Argentina, Costa Rica, Colombia, Venezuela, Mexico and Peru.

"Europe" mainly includes the United Kingdom, the Netherlands, Germany, France, Italy, Spain and Portugal.

"Asia/Oceania" mainly includes China (including Hong Kong), Singapore, Malaysia, Taiwan, Thailand, the Philippines, Australia, New Zealand, Indonesia, Korea and India.

# SEIKO EPSON CORPORATION

|                             | Millions of yen                    |            |          |         | Thousands of U.S.<br>dollars       |
|-----------------------------|------------------------------------|------------|----------|---------|------------------------------------|
|                             | Three months ended<br>December 31, |            | Change   |         | Three months ended<br>December 31, |
|                             | 2003                               | 2002       |          |         | 2003                               |
| Japan:                      |                                    |            |          |         |                                    |
| Net sales                   |                                    |            |          |         |                                    |
| Customers                   | ¥195,772                           | ¥179,925   | ¥15,847  | 8.8%    | \$1,827,425                        |
| Inter-segment               | 133,714                            | 139,588    | (5,874)  | (4.2%)  | 1,248,147                          |
| Total                       | 329,486                            | 319,513    | 9,973    | 3.1%    | 3,075,572                          |
| Operating expenses          | 314,262                            | 302,113    | 12,149   | 4.0%    | 2,933,464                          |
| Operating income            | ¥15,224                            | ¥17,400    | ¥(2,176) | (12.5%) | \$142,108                          |
| The Americas:               |                                    |            |          |         |                                    |
| Net sales                   |                                    |            |          |         |                                    |
| Customers                   | ¥58,825                            | ¥60,820    | ¥(1,995) | (3.3%)  | \$549,099                          |
| Inter-segment               | 11,645                             | 13,032     | (1,387)  | (10.6%) | 108,700                            |
| Total                       | 70,470                             | 73,852     | (3,382)  | (4.6%)  | 657,799                            |
| Operating expenses          | 66,651                             | 71,766     | (5,115)  | (7.1%)  | 622,151                            |
| Operating income            | ¥3,819                             | ¥2,086     | ¥1,733   | 83.1%   | \$35,648                           |
| Europe:                     |                                    |            |          |         |                                    |
| Net sales                   |                                    |            |          |         |                                    |
| Customers                   | ¥88,581                            | ¥79,050    | ¥9,531   | 12.1%   | \$826,855                          |
| Inter-segment               | 484                                | 1,348      | (864)    | (64.1%) | 4,518                              |
| Total                       | 89,065                             | 80,398     | 8,667    | 10.8%   | 831,373                            |
| Operating expenses          | 83,536                             | 75,801     | 7,735    | 10.2%   | 779,763                            |
| Operating income            | ¥5,529                             | ¥4,597     | ¥932     | 20.3%   | \$51,610                           |
| Asia / Oceania:             |                                    |            |          |         |                                    |
| Net sales                   |                                    |            |          |         |                                    |
| Customers                   | ¥54,892                            | ¥59,908    | ¥(5,016) | (8.4%)  | \$512,387                          |
| Inter-segment               | 143,717                            | 135,269    | 8,448    | 6.2%    | 1,341,519                          |
| Total                       | 198,609                            | 195,177    | 3,432    | 1.8%    | 1,853,906                          |
| Operating expenses          | 189,810                            | 183,451    | 6,359    | 3.5%    | 1,771,773                          |
| Operating income            | ¥8,799                             | ¥11,726    | ¥(2,927) | (25.0%) | \$82,133                           |
| Eliminations and corporate: |                                    |            |          |         |                                    |
| Net Sales                   | ¥(289,560)                         | ¥(289,237) | ¥(323)   | -       | \$(2,702,884)                      |
| Operating expenses          | (288,087)                          | (286,408)  | (1,679)  | -       | (2,689,135)                        |
| Operating loss              | ¥(1,473)                           | ¥(2,829)   | ¥1,356   | -       | \$(13,749)                         |
| Consolidated:               |                                    |            |          |         |                                    |
| Net Sales                   | ¥398,070                           | ¥379,703   | ¥18,367  | 4.8%    | \$3,715,766                        |
| Operating expenses          | 366,172                            | 346,723    | 19,449   | 5.6%    | 3,418,016                          |
| Operating income            | ¥31,898                            | ¥32,980    | ¥(1,082) | (3.3%)  | \$297,750                          |

# SEIKO EPSON CORPORATION

## (3) Sales to overseas customers-

|                    | Millions of yen                   |          |          |        | Thousands of U.S. dollars |                                      |
|--------------------|-----------------------------------|----------|----------|--------|---------------------------|--------------------------------------|
|                    | Nine months ended<br>December 31, |          |          |        | Year ended<br>March 31,   | Nine months<br>ended<br>December 31, |
|                    | 2003                              | 2002     | Change   |        | 2003                      | 2003                                 |
| Overseas sales:    |                                   |          |          |        |                           |                                      |
| The Americas       | ¥175,856                          | ¥180,727 | ¥(4,871) | (2.7%) | ¥239,936                  | \$1,641,520                          |
| Europe             | 267,004                           | 225,599  | 41,405   | 18.4%  | 318,575                   | 2,492,336                            |
| Asia/Oceania       | 239,824                           | 206,464  | 33,360   | 16.2%  | 274,307                   | 2,238,626                            |
| Total              | 682,684                           | 612,790  | 69,894   | 11.4%  | 832,818                   | 6,372,482                            |
| Consolidated sales | ¥1,055,924                        | ¥981,700 | ¥74,224  | 7.6%   | ¥1,322,453                | \$9,856,473                          |
| Percentage:        |                                   |          |          |        |                           |                                      |
| The Americas       | 16.7%                             | 18.4%    |          |        | 18.1%                     |                                      |
| Europe             | 25.3                              | 23.0     |          |        | 24.1                      |                                      |
| Asia/Oceania       | 22.7                              | 21.0     |          |        | 20.8                      |                                      |
| Total              | 64.7%                             | 62.4%    |          |        | 63.0%                     |                                      |

|                    | Millions of yen                    |          |          |        | Thousands of<br>U.S. dollars                  |
|--------------------|------------------------------------|----------|----------|--------|---|
|                    | Three months ended<br>December 31, |          | Change   |        | Three months<br>ended<br>December 31,<br>2003 |
|                    | 2003                               | 2002     |          |        |   |
|                    |                                    |          |          |        |   |
| Overseas sales:    |                                    |          |          |        |   |
| The Americas       | ¥61,125                            | ¥62,449  | ¥(1,324) | (2.1%) | \$570,569                                     |
| Europe             | 102,350                            | 96,676   | 5,674    | 5.9%   | 955,381                                       |
| Asia/Oceania       | 86,105                             | 83,047   | 3,058    | 3.7%   | 803,743                                       |
| Total              | 249,580                            | 242,172  | 7,408    | 3.1%   | 2,329,693                                     |
| Consolidated sales | ¥398,070                           | ¥379,703 | ¥18,367  | 4.8%   | \$3,715,766                                   |
| Percentage:        |                                    |          |          |        |   |
| The Americas       | 15.4%                              | 16.4%    |          |        |   |
| Europe             | 25.7                               | 25.5     |          |        |   |
| Asia/Oceania       | 21.6                               | 21.9     |          |        |   |
| Total              | 62.7%                              | 63.8%    |          |        |   |